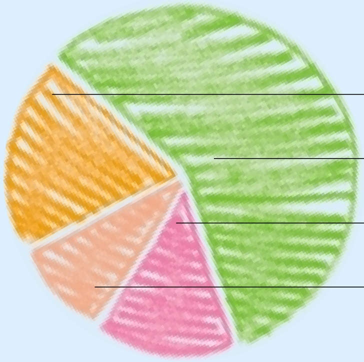
DANONE GROUP

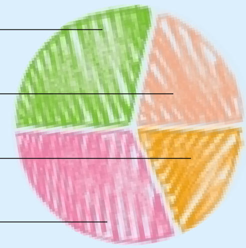
1999 Annual Report

Danone Group—key figures

Main shareholders at December 31, 1999



Institutional investors by country



Number of shares listed on December 31, 1999: 74.1 million

Financial highlights

€ millions
FRF millions

	1998	1999	Change (%)
Net sales	12,935 84,848	13,293 87,195	[1]+5.7% + 2.8%
Operating income	1,293 8,483	1,391 9,123	[1]+11.4% +7.6%
Operating margin	10.0%	10.5%	
Net income (excluding minorities)	598 3,923	682 4,474	+14%
EBITDA	1,995 13,086	2,149 14,093	+7.7%
Operating cash flow	1,327 8,706	1,423 9,337	+7.2%
Capital expenditure	711 4,664	703 4,609	
Net debt	2,873 18,846	3,119 20,456	
Stockholders' equity	7,297 47,864	6,867 45,046	
Net gearing ratio	39%	45%	
Market capitalization (31/12/99)	17,971 117,882	17,347 113,793	
Net earnings per share (diluted)	8.15 € 53.46 F	9.38 € 61.51 F	+15.1%
Net dividend per share	3.00 € 19.68 F	*3.50 € 22.96 F	+16.7%
Return on capital invested	8%	8.8%	
Return on equity	9.2%	10.8%	
Shareholder value created	111 728	139 912	+25.2%

* subject to approval of the General Meeting of Shareholders

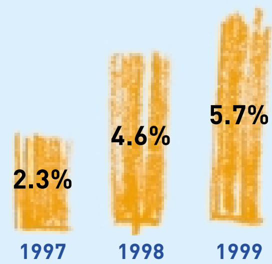
Sales and operating margin over 5 years

€ millions
FRF millions

	1995	1996	1997	1998	1999
Sales	12,112 79,450	12,797 83,940	13,488 88,476	12,935 84,848	13,293 87,195
Change	+3.4%	+5.7%	+5.4%	-4.1%	+2.8%
Operating margin	8.8%	8.9%	9.1%	10.0%	10.5%

[1] at constant scope of consolidation and exchange rates
[2] assumes divestments made in 1999 effective from January 1, 1999

Organic growth [1]



Presence

Sales in: 120 countries

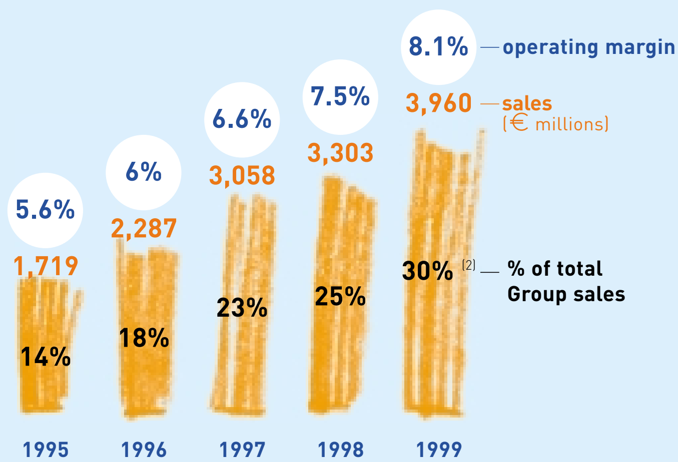
148 production plants at Dec. 31, 1999

Employees

At Dec. 31, 1999
75,965

France: 15,790
Rest of European Union: 17,974
Rest of World: 42,201

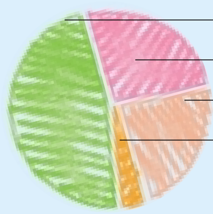
International business
(outside the European Union)



Sales by business line

(€ millions)

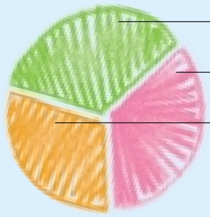
	1998	1999
Fresh dairy products	5,665	5,981
Beverages	3,004	3,565
Biscuits	2,607	2,822
Other food business	905	527
Containers	932	501
Divestments	-178	-103
Group total	12,935	13,293



Sales by region

(€ millions)

	1998	1999
France	5,042	4,963
Rest of European Union	5,267	5,084
Rest of World	3,303	3,960
Incl. Asia-Pacific	899	1,121
Divestments	-677	-714
Group total	12,935	13,293



Growth in 1999 sales by business line

(at comparable structure)[1]

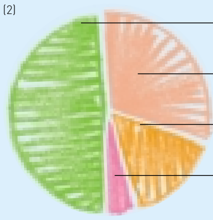
Growth in 1999 sales by region

(at comparable structure)[1]

Operating income by business line

(€ millions)

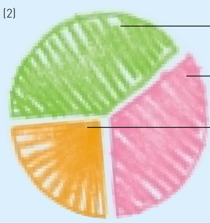
	1998	1999
Fresh dairy products	621	655
Beverages	368	440
Biscuits	203	222
Other food business	29	39
Packaging	91	51
Unallocated items	-19	-16
Group total	1,293	1,391



Operating income by region

€ millions)

	1998	1999
France	589	587
Rest of European Union	475	501
Rest of World	248	319
Unallocated items	-19	-16
Group total	1,293	1,391



1999 at a glance

A world **leader** specialized in 3 expanding businesses: **No.1** in fresh dairy products, **No. 2** in bottled water and **No.1** in sweet biscuits.

One of the strongest organic growth rates in the sector: **+6.2%** in 1999 for core business lines.

Operating margin of **10.5%**, up for the 5th year running.

International business expanding rapidly, now accounting for nearly **30%** of total sales.

Powerful, focused brand names:

- Danone Group represents nearly **1/3** of Group sales or EUR **4.1** billion.
- 4 brands account for over **50%** of consolidated sales.

From the Chairman

Nineteen ninety-nine and the opening months of 2000 mark a turning point in the history of the Danone Group.

We completed the divestment of grocery business that began in 1998, started to pull out of packaging, and — in recent weeks — have organized our withdrawal from brewing in Europe.

Today, Danone Group is completely refocused on its three core businesses, with 49% of sales generated by fresh dairy products, 23% by water and 25% by biscuits. Our geographical spread has also widened, with European sales down to 62% of the total, and international operations — primarily in emerging markets — up to 38%.

Focusing our human and financial resources on these three business lines worldwide represents a new departure for Danone Group.

On the one hand, we will be stepping up our drive to stake out positions in the developing countries and regions where we are not yet — or not sufficiently — present.

We will also be accelerating sales growth in countries where we already do business, building on extensive innovation backed by research and an ever more finely tuned assessment of consumer tastes and requirements.

Already, leverage from international expansion and innovation has generated growth that is particularly high compared with sector averages and performances of our main competitors.

Many of our management teams have been strengthened, at all levels.

They are motivated by a strong corporate culture with clear strategic priorities.

For senior executives, compensation is now based on return on capital invested and stock options.

Management thus shares the concerns of our shareholders and is committed to transforming our drive for business success and social progress into value for all our shareholders.

For all of these reasons, I look to prospects of growth and profitability for our "new Danone Group" with confidence as we enter a new century.

Franck Riboud
Chairman and Chief Executive Officer, Danone Group

Business strategy

The new Danone Group

Its operations refocused on three core business lines, Danone Group is out to conquer world markets with healthy, tasty products

Strategic priorities

In 1997, Danone Group adopted a new strategy emphasizing creation of shareholder value and built on three key principles:

- Increase operating margin and return on capital invested.
- Target profitable growth — the key to success in an industry based on consumer products.
- Ensure that human resource policy and labor relations remain central corporate priorities.

These guidelines have received strong support from management, giving rise to a steady stream of developments to optimize resources. Measures include:

- refocusing Group operations on business lines that guarantee a satisfactory return and offer substantial growth potential: fresh dairy products, beverages and biscuits
- acceleration of international expansion in these three core businesses, to take advantage of scope for profitable growth on markets outside western Europe
- optimizing the group's product portfolio and advertising outlays to make best use of leading brand names
- stepping up new-product development, with a special focus on high-potential products sold under main brand names, and designed for consumption in varied circumstances
- developing consumer confidence in Group products through stringent policies emphasizing quality and food safety
- improved organization for greater overall efficiency and awareness of consumer profiles and tastes
- reexamining compensation policy and management criteria to rally employees to these principles
- emphasizing Danone Group's longstanding commitment to good corporate citizenship, in which human resources hold the key to success.

Danone Group — a new profile with three core businesses offering promising scope for expansion

Since 1997, Danone Group has made major divestments, including grocery products, "Conquer world markets — with enthusiasm!"

pasta and ready-to-serve dishes.
In July 1999, the sale of most container operations marked the final stage in a drive to refocus on core businesses, and the Group entered a new period in its history.
Today Danone Group has retrenched to three business lines offering some of the most promising development prospects of any food activity, with organic growth running at over 6% in 1999.
The Group will now be throwing the full weight of its financial and human resources into developing these three activities.
In the industrialized world, sales of fresh dairy products and bottled waters are buoyed by consumer demand for healthy, safe eating. And biscuits are definitely back in style, with creative advertising emphasizing the benefits of grain-based products rounded out by innovative new offerings such as low-calorie ranges attuned to new consumer tastes.

International development — the pace quickens

International growth will continue to gather pace as Danone Group consolidates positions in emerging economies. Growth in recent years speaks for itself, with sales of water and biscuits rising in China, and fresh dairy products gaining ground in Mexico and central Europe.

In emerging markets, demand for brand-name products is fueled by a rise in disposable income and the emergence of a middle class seeking a nutritious, safe and balanced diet.
To meet the challenge, Danone Group plans further acquisitions of interests in existing companies as well as the creation of new businesses from scratch.

Options include expanding existing holdings or moves into new countries — targeting leading positions in each case.
Danone Group will be able to draw on a range of resources, starting with expertise in marketing that will help meet consumer needs and promote Group brands. Other strengths are an extensive product range backed by innovative flair and world-class expertise in production, plus an increasingly broad geographical spread that will generate hefty savings of scale.

Step up innovation and build on leading brands

Innovation and well-known labels underpin Danone Group's strategy of profitable growth. Together they generate high-margin sales and give the Group added clout in negotiations with large retailers. As industry concentration gathers pace, innovative brands that are local leaders are set to retain market share and preserve margins. For hypermarkets and supermarkets, such labels are in a class of their own: driven by consumer demand, they generate substantial sales and hefty margins for new products, while enhancing the overall image of the stores that stock them.
To make the most of its resources, Danone Group will pursue a strategy aimed at:
- achieving market leadership in each country and in each of the segments where it operates
- enhancing powerful, efficient brands through ongoing advertising and by generating maximum sales through a minimum number of well-known labels.

Today Danone Group derives nearly 60% of its worldwide sales from its top five brands —

Outside the European Union

% of Group total
1993 → 7% 1999 → 30%[1]

[1] after 1999 divestments

Around 70% of group sales worldwide are generated by brands holding 1st place on local markets.

Danone, Evian, LU, Galbani and Kronenbourg — and over 30% from the Danone label alone. Innovation has raised profitability as new, more sophisticated products extend Danone's reach to new areas. This is illustrated by packaging designed to appeal to people on the go — 1-liter bottles of Evian and Volvic water, for example, or drinkable versions of fresh dairy products including Danette in France and Danimals Drinkable in the US.

Danone brand

One of the world's top 5 food brands

- sales: € 4.1 billion
- 31% of Danone Group sales
- annual growth: 8.7%

New structures to meet new challenges

Danone Group is constantly adapting structures to generate new synergies, tackle international expansion more effectively and meet new consumer trends.
In 1998, management was revamped with the creation of three worldwide business lines (fresh dairy products, beverages and biscuits) and one geographical line (Asia-Pacific).
A new, cross-business marketing structure promotes a coordinated world policy and ensures that new products reach promising markets. Actimel, now sold in 14 countries, is one of its success stories. Other cross-company structures were also introduced, strengthened or revised at corporate level. Thus, Danone Group's central purchasing team now coordinates worldwide spending of around € 8 billion a year, generating savings estimated at € 100 million in 1999. At year end, the program still represented only around 40% of total buying, leaving significant scope for further gains.
Similarly, the new "Danone dans la Vie" unit has been assigned worldwide responsibility for promoting consumption outside the home — a rapidly expanding market — and has already signed 15 agreements with partners ranging from McDonald's to Club Méditerranée, Sodexho and Accor.
Aware that technology will play an essential role in future success, Danone Group has also set up an IT department with a wider brief and increased resources.

Enterprise Resource Planning (ERP)

In 2000, worldwide deployment of an integrated management platform for all subsidiaries will get under way.
Aim: shorter response times and major cost savings.

In 1999, the Group also took a fresh look at research and development, repositioning R&D at the heart of its strategy of profitable growth. The unit handles one of the Group's most important concerns — food quality and safety. A shift in policies to ensure that know-how acquisition and development is in closer touch with consumers should favor the development of promising new products.
Efficiency of structures spanning several business lines was boosted by the launch of worldwide intranets, allowing partners around the globe to share information.

Analyzing consumer profiles to meet demand

For Danone Group, consumer intelligence is clearly a strategic priority.
The Group has harnessed major financial and human resources to analyze and define expectations in each country where it operates — an essential first step in adapting products to local tastes and anticipating new trends.
Direct links with consumers — one of the most promising sources of high-quality information and a vector for product promotion — will play an increasing role.

Danoé

- Europe's first largest magazine for end-customers
- Received quarterly by 2.5 million households loyal to Group brands.

Danoé, a highly successful publication for consumers, is just one example of the expertise built up by Danone Group in this field. Growth in Internet use also opens exciting possibilities for direct contact with consumers, and a number of pilot projects are being developed in this area.

Internet strategy

Danone Group has four strategic priorities in this fast-moving area:

- improve purchasing policy through new links with suppliers and revision of internal processes
- prepare for on-line distribution of Danone products
- make specialized know-how — in training, food safety, etc. — a source of competitive advantage
- make the Internet a prime vector for direct links with consumers.

Human resources — essential to success

Danone Group's success is built on the quality, commitment and enthusiasm of its workforce, and the Group's innovative policy addresses issues from recruitment, assessment and training to compensation and reclassification of employees when facilities are closed.

Environmental protection

- Charter for environmental protection adopted in 1996
- Commitments cover all activities — worldwide
- 14 facilities certified ISO 14001 compliant at year-end 1999.

www.danoneconseils.com

In 2000, a new Danone Group Internet site will come on line, with detailed consumer information on Group products.
Featured prominently are healthy living and tasty eating — watchwords for the life style identified with Danone products.

Danone Group also seeks to meet 80% of its needs for management personnel through in-house recruitment, forging a truly international corporate culture by rotating skills throughout the Group.

Promoting good corporate citizenship

Danone Group is convinced that its role in society goes well beyond optimizing financial ratios.
The Group demonstrates its commitment to environmental protection through innovative packaging and stringent controls on production facilities. It offers financial support to a wide range of projects addressing social issues — development of local economies, training for young people in difficulty, promotion of healthy nutrition, and support for youngsters suffering from poverty and neglect.
Yet responsibility to shareholders is also important, and Danone Group makes a point of transparency, disseminating full, clearly stated information as quickly as possible.

www.CPGmarket.com

In 1999, Danone Group teamed up with Nestlé and SAP, later joined by Henkel, to launch the first Internet marketplace for e-procurement in the consumer goods sector. It will generate significant gains, optimizing calls for tender, invoicing, payment and other purchasing processes. Other partners may join at a later date.

Corporate governance

Transparency our priority

Danone Group management

Board of Directors

at March 15, 2000

16 members including

5 independent directors[1], appointed for renewable 3-year terms, each with a personal investment of at least 500 shares.

5 board meetings were held in 1999, attended by 75% of members on average.

Annual director's fee : FRF 100,000 per board member[2].

[1] as defined in the Viénot report on corporate governance in France.
[2] entitlement waived by Group executives and officers.

To enhance its analytical and decision-making capacity, the Board of Directors has set up three specialized committees.

Strategy and Appointments Advisory Committee

Analyzes strategic choices relating to asset sales and acquisitions, and ensures that human resources are available to meet the challenges facing Danone Group.

Audit Committee

Ensures principles of sound and prudent management are applied in drawing up financial statements and risk management policy.

Compensation Committee

Ensures that executive compensation at Danone Group is consistent with market conditions and policies applied in companies comparable to Danone Group.

General Management Executive Committee

Coordinates Group activities and meets monthly to review progress.
The range and depth of expertise represented by its members reflect broad experience as well as a willingness to consider new ideas, qualities that help Danone Group meet the challenges of international development while keeping pace with trends in distribution, new-product development and information technology.

International Committee

Set up in 1998 to bring the Executive Committee a first-hand view of market trends. Members are Group executives representing major regions where Danone Group operates.

Compensation policy and stock options

Danone Group's new compensation system is designed to motivate senior executives and members of Executive Committees at Group subsidiaries, to create shareholder value. Around 900 employees around the world participate in the system, which includes:
- a bonus representing an average 20% of

annual remuneration, of which 60% is based on value creation criteria
- attribution of stock options every two years, reflecting executives' positions in the corporate hierarchy and individual performance.

Stock options at Danone Group

- Allocated every 2 years
- Length of plans: 8 years
- Frozen: 2 years
- Price: 100% of average stock price in the 20 trading days prior to the Board meeting making the allocation
- At Dec. 31, 1999: 1,157,270 stock options were unexercised, representing 1,157,270 potential shares at an exercise price of between € 91.47 and € 256.77

Executive Committee

at March 15, 2000

The Executive Committee has 11 members. 3 are non-French, 5 have been with Danone Group for less than 10 years, and 4 are under age 45.

The average age of Executive Committee members is 50.

The 9 members in office at December 31, 1999 received compensation* totaling FRF 48.64 million in 1999.

* fixed and variable components received from all Danone Group companies

Risk management

Danone Group has an active risk management policy to protect shareholders' interests and optimize value.
Priorities include:
- rigorous identification of risks through a range of reporting systems, indicators and internal accounting
- risk prevention to reduce the scope and frequency of identified risks
- a system of global cover to minimize the impact of specific events on Group finances
- organization and crisis management tools to ensure an efficient response at the first sign of trouble.

Political risk

Danone Group takes political risk into account when investing in emerging markets, making this an integral part of criteria preceding investment decisions and maintaining an appropriate geographical spread.

On December 31, 1999, no single emerging country accounted for more than 6% of total sales.
The Group also has insurance cover for nationalization of assets, for countries with possible exposure.

Clients

While concentration in retailing has increased the relative weight of major customers, it has also focused the Group's main risks on entities with generally stronger capital bases.

Raw materials

The type of products purchased by Danone Group and the geographical range of its activities limit exposure to upheavals in supplies.
While most raw materials are not generally considered speculative, some may be subject to marked price fluctuations.
Historically, the widest variations have occurred in packaging materials (plastics and cardboard).

Environmental policy

Danone Group has long made an active effort to reduce the environmental impact of both production and packaging.
It has adopted and implemented worldwide a single environmental policy based on in-house tracking of indicators at all sites and step-by-step certification of facilities under ISO 14001.
The Group is particularly careful to conduct environmental audits prior to acquisitions, and takes corrective measures needed as soon as possible.

Food safety

Food safety — one of the major areas of risk for Danone Group — is an absolute priority.
In recent years, the Group has invested heavily to reduce the frequency and scope of potential risks.

Measures include tracking consumer concerns, monitoring quality on production lines at all times, collecting and storing samples of lots sold, implementing structures to ensure that both raw materials and products sold can be traced to source.
Together, these allow the Group to move quickly and selectively to protect consumers' health and defend its brands.

Currency translation and interest rates

Danone Group limits hedging to positions resulting directly from its industrial and commercial activity, and does not engage in speculative transactions.
Management of currency and interest-rate risk is centralized with specialized teams in the Finance department, and complies with rules defined by general management.
On-going in-house audits are rounded out by periodic verifications carried out by the Audit Committee and external auditors.

Readying for the euro

In 2002, the euro will be the sole currency in the euro zone.
Danone Group is actively preparing for the shift, assessing strategic implications and fine-tuning systems to ensure a smooth changeover.
Since 1999 it has used euros for intra-Group billing and cash management.
Subsidiaries Heudebert and LU Nederland already use euros for all transactions with two major world distributors as part of a pilot project.
Group accounts with suppliers will shift to euros in 2000 and 2001.

Code of conduct

A corporate code of business conduct defines relations between employees and business partners.
It has been circulated throughout the Group since 1997.

Annual remuneration of members of the Board of Directors and Committees

Board of Directors: Directors' fees totaling FRF 100,000 per member per year*.

Strategy and Appointments Advisory Committee: FRF 50,000 per year for the Chairman; FRF 25,000 per year per member*.

Audit Committee: FRF 50,000 per year for the Chairman; FRF 25,000 per year per member*.

Compensation Committee: FRF 20,000 per year for the Chairman; FRF 10,000 per year per member.

* entitlement waived by Group executives and officers


Franck Riboud,
Chairman and CEO


Jacques Vincent,
Vice Chairman and Chief Operating Officer


Christian Laubie,
Senior Executive Vice President


Philippe Jaeckin,
Executive Vice President

at March 15, 2000

Board of Directors Committees

Franck Riboud
Chairman and Chief Executive Officer

Michel David-Weill
Vice Chairman

Jacques Vincent
Vice Chairman and Chief Operating Officer

Christian Laubie
Senior Executive Vice President

Philippe Jaeckin
Executive Vice President

Directors

Umberto Agnelli
Dominique Auburtin
Yves Boël
Yves Cannac
Luca Fossati
Jean Gandois
Jean-Claude Haas
Philippe Lenain
Jacques Nahmias
Edouard de Royère
Jérôme Seydoux

Honorary Directors

Antoine Riboud
Honorary Chairman

Daniel Carasso
Honorary Chairman

Renaud Gillet
Pierre Lambertin

Strategy and Appointments Advisory Committee

Antoine Riboud
Chairman

Umberto Agnelli
Yves Boël
Daniel Carasso
Michel David-Weill
Luca Fossati
Jean Gandois
Christian Laubie
Franck Riboud
Edouard de Royère
Jerôme Seydoux
Jacques Vincent

Compensation Committee

Michel David-Weill
Chairman

Yves Boël
Jean Gandois

Audit Committee

Jean-Claude Haas
Chairman

Yves Cannac
Jean Gandois

Statutory Auditors

Auditors
Befec-Price Waterhouse

at March 15, 2000

Member of PricewaterhouseCoopers
Mazars & Guérard

Alternate Auditors
Denis Grison
Marc Chauveau

Executive Committee

Franck Riboud
Chairman and Chief Executive Officer

Jacques Vincent
Vice Chairman and Chief Operating Officer

Christian Laubie
Senior Executive Vice President

Jean-René Buisson
Senior Vice President, Human Resources

Emmanuel Faber*
Executive Vice President, Finance

Philippe Jaeckin
Executive Vice President

Jan Bennink
Executive Vice President, Dairy Products Worldwide

Georges Casala*
Executive Vice President, International Strategy

Jean-Louis Gourbin
Executive Vice President, Biscuits Worldwide

Simon Israel
Executive Vice President, Asia-Pacific

Pedro Medina
Executive Vice President, Water Worldwide

* appointed in 2000

Umberto Agnelli
born November 1,1934
No. of shares held: 500.
Director, Member of the Strategy and Appointments Advisory Committee
Danone Group, France.
Chairman, IFIL SpA, Italy.
Vice Chairman, Managing Director IFIL SpA, Italy.
Vice Chairman Giovanni Agnelli EC Sapaz, Italy.
Member of the Supervisory Board and Strategy Committee
Worms & Cie, France.

Dominique Auburtin
born July 30, 1951
No. of shares held: 500.
Director Danone Group, France.
Chairman of the Executive Board Worms & Cie, France.
Chairman of the Supervisory Board Saint-Louis Sucre SA, France.
Director CAR SA, Insurance and reinsurance brokers, France. Les Petites Affiches, France. Permal Group, France. Arjo Wiggins Appleton, UK.

Yves Boël
born September 12, 1927
No. of shares held: 510.
Director, Member of the Strategy and Appointments Advisory Committee, Member of the Compensation Committee
Danone Group, France.
Chairman
SA Sofina, Belgium.
Chairman, Managing Director SA Union Financière Boël, Belgium.
Vice Chairman
SA Tractebel, Belgium.
Director
Eurafrance, France.

Yves Cannac Independent*
born March 23, 1935
No. of shares held: 504.
Director, Member of the Audit Committee
Danone Group, France.
Group Board Cegos SA, France.
Director Caisse des Dépôts - Développement [C3D], France. Société Générale, France. AGF, France.

Michel David-Weill
born November 23, 1932
No. of shares held: 20,234.
Vice Chairman and Director, Member of the Strategy and Appointments Advisory Committee, Chairman of the Compensation Committee
Danone Group, France.
General Partner Lazard Frères & Cie, France.
Chairman Lazard Partners Ltd Partnership, US. Lazard Frères & Co, LLC, US.
Chairman Eurafrance, France.
Member of the Supervisory Board Publicis, France.
Director ITT Industries Inc., US; IFIL SpA, Italy.

Luca Fossati
born October 23, 1957
No. of shares held: 525.
Director, Member of the Strategy and Appointments Advisory Committee
Danone Group, France.
Chairman Findim Finanziaria Industriale Immobiliare Mobiliare SpA, Italy. Findim Investments SA, Switzerland. Star Stabilimento Alimentare SpA, Italy.
Director IFIL SpA, Italy.

Jean Gandois Independent*
born May 7, 1930
No. of shares held: 1,164.
Director, Member of the Strategy and Appointments Advisory Committee, Member of the Compensation Committee
Danone Group, France.
Member of the Supervisory Board
Peugeot SA, France. Compagnie Financière Paribas, France. Siemens AG, Germany. Akzo Nobel, Netherlands.
Director
Institut Curie, France.

Jean-Claude Haas
born February 21, 1926
No. of shares held: 4,095.
Director, Chairman of the Audit Committee
Danone Group, France.
General Partner
Lazard Frères & Çie, France.
Chairman and CEO
Compagnie de Crédit, France.
Director Pathé, France. Eurafrance, France.
General Partner
Lazard Partners Ltd Partnership, US.
Managing Director
Lazard Brothers & Co, Ltd, UK.

Philippe Jaeckin
born December 14, 1938
No. of shares held: 500.
Director, Senior Executive Vice-President, Member of the Executive Committee
Danone Group, France.

Christian Laubie
born August 19, 1938
No. of shares held: 49,823.
Director and Senior Executive, Vice President, Member of the Strategy and Appointments Advisory Committee, Member of the Executive Committee
Danone Group, France.
Chairman Alfabanque, France.

Philippe Lenain
born September 9, 1936
No. of shares held: 5,000.
Director Danone Group, France.
Eco-Emballages, France.
Nord Est, France.

Jacques Nahmias Independent*
born September 23, 1947
No. of shares held: 553.
Director
Danone Group, France.
Chairman and CEO
Propétrol SA, France.
Chief Operating Officer and Director
Pétrofrance SA, France.
Director
Danone SA, Spain.

Franck Riboud
born November 7, 1955
No. of shares held: 50,450.
Chairman and CEO, Chairman of the Executive Committee, Member of the Strategy and Appointments Advisory Committee
Danone Group, France.
Director Fiat, Italy.

Edouard de Royère Independent*
born June 26, 1932
No. of shares held: 700.
Director, Member of the Strategy and Appointments Advisory Committee
Danone Group, France.
Honorary Chairman and Director
L'Air Liquide SA, France.
Chairman ANSA, France.
Director L'Oréal, France. Sodexho, France. Solvay, Belgium.

Jérôme Seydoux Independent*
born September 21, 1934
No. of shares held: 500.
Director, Member of the Strategy and Appointments Advisory Committee
Danone Group, France.
Chairman Pathé, France.
Chief Operating Officer and Director Chargeurs, France.
Member of the Supervisory Board Accor, France.

Jacques Vincent
born April 9, 1946
No. of shares held: 12,500.
Vice Chairman and Chief Operating Officer, Member of the Strategy and Appointments Advisory Committee, Member of the Executive Committee
Danone Group, France.
Chief Operating Officer and Director Brasseries Kronenbourg, France.

*As defined in the Viénot report on corporate governance in France

Highlights

1999 milestones

Drive to refocus completed

January: Danone Group and Griesson merge biscuit operations in Germany, with Danone Group taking 40% of the new entity.
May: Danone Group sells 100% of French subsidiaries Marie Surgelés and Générale Traiteur, specialized in fresh and frozen ready-to-serve dishes.
July: sale of 56% equity interest in container operations, which ceased to be fully consolidated in the second half of the year.
November: sale of products for health-conscious consumers (Gayelord Hauser, Athlon).

Investments outside Western Europe totaled more than €1 billion in 1999.

Robust external growth

January: Danone Group buys out Mastellone's interests in Danone Argentine, local market leader in dairy products.
February: Danone Group takes over Delicja/Wedel, Polish leader in sweet biscuits.
March: With 64% of Bagley, Argentina's No. 1 biscuit producer, Danone Group launches a takeover bid for remaining shares traded on the stock exchange; the move leaves Danone Group with 91% of equity.
April: Danone Group acquires 20% of Galletas Noel, Colombia's leading biscuit maker.
September:

- Danone Group teams up with the Sabanci group to buy 100% of Birtat, market leader in fresh dairy products in the Ankara area (Turkey)
- Danone Group acquires 46% of Bakoma, Poland's No. 2 fresh dairy product company
- acquisition of 20% of Lifeway, the top producer of kefir in the US and a major player in the emerging probiotic and functional foods market
- acquisition of 20% of Sotubi, Tunisia's top biscuit producer
- acquisition in conjunction with ONA, of 100% of BIMO Morocco's leading biscuit producer
- acquisition of 100% of Villavicencio and buyout of minority interests in Aguas Minerales, making Danone Group Argentina's uncontested leader in bottled water.

October: Danone Group announces plans to exchange its 20% stake in Delta Dairy, a leading Greek food producer, for a 30% interest in a new Delta Dairy subsidiary specialized in fresh dairy products.

Finance & capital

January-March: Early redemption of 1990 6.60% convertible bond issue creates 3.5 million new shares.
May: General Meeting approves new share buyback allowing Danone Group to buy up to 10% of its own shares in the following 18 months.
June: Danone Group cancels 4.5 million shares of treasury stock as allowed under a resolution approved by the General Meeting of Shareholders.
December: Danone Group announces early redemption of the 3% convertible loan in the first quarter of 2000.

Financial communications

In 1999, Danone Group won:
- an award for the best Reference Document — a report setting out

Jacques Vincent,
Vice-Chairman and Chief Operating Officer

"Danone Group's corporate culture is truly international"

key financial and business information on the company that is filed with France's market watchdog COB

– France's Grand Prix Cristal for Financial Transparency for the overall quality of information provided to shareholders
– Second prize in a nationwide competition for financial websites.

Management and Human Resources

April: Jean-Louis Gourbin takes charge of Biscuits Worldwide and joins the Executive Committee.

September: Emmanuel Faber is appointed to the Executive Committee and named Executive Vice President, Finance, with effect from January 1, 2000.

October: 150 top managers meet at Evian in the French Alps to discuss Danone Group values and strategy.

November: a survey of 7,300 managers at Group subsidiaries around the globe confirms that 90% are proud to be part of the Danone Group.

Innovation & new products

– Evian 1-liter bottles and Volvic 1-liter bottles with snap-close "sportscaps"
– Talians, a calcium-rich mineral water especially for pregnant women and seniors

– Actimel sales move past the € 150 million mark
– LU extends its low-cal biscuit line to include salty snacks
– launch of Danone water in Turkey
– international launch of Ferrarelle mineral water.

New production facilities

– ribbon-cutting at the ultra-modern Opavia biscuit plant in the Czech Republic
– ground-breaking for construction of a new fresh dairy product plant in Spain
– dairy plant inaugurated in Romania, a country with a long tradition of dairy products.

Special events

Danone Group joins the Children's Hour

project organized by the International Youth Foundation.

Supporting needy children around the world, the project reflects Danone Group's commitment to fostering new exchanges with consumers based on shared values.

Danone Group employees worldwide rallied to the cause, organizing a host of local events to collect funds, and donating one hour of their own salary to the project.

2000: a strong start

Beverages

United States:
Danone Group moves into **No.2** spot in bottled water with its purchase of 100% of **McKesson,** a market leader in home and office deliveries.

China:
Danone Group purchases **Robust,** strengthening its **No.1** position in water and flavored dairy drinks.
Sales are rising by over 20% a year in this fast-growing market, and Danone has a strong base to build for the future.

Europe:
Danone Group starts its withdrawal from **beer,** selling a controlling interest in its European brewing operations.

Biscuits

Danone Group acquires operations from **United Biscuits,** strengthening its existing positions and moving into new countries.

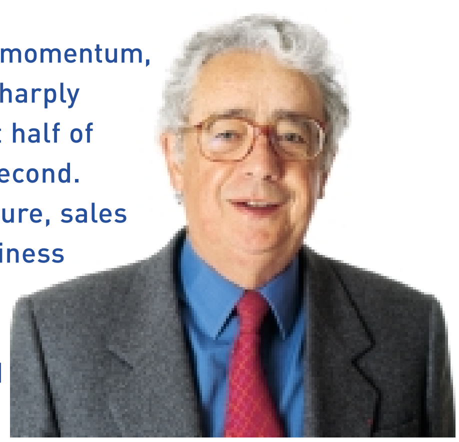
1999 performance

Summary of 1999 sales and earnings

Results for 1999 bear out the soundness of a strategy centered on three business lines with high potential — Fresh dairy products, Beverages and Biscuits. Sales growth at comparable structure quickened significantly, with the overall rise in these three businesses reaching 6.2%, one of the highest figures in the world food industry. Sustained pace in European business and vigorous trends in other parts of the world — now accounting for 30% of consolidated sales — both contributed to this performance. Profitability showed a further healthy rise with operating margin up from 10% to 10.5%, while net income increased 14% and return on capital employed was up from 8% to 8.8%.

Sales up 5.7% at comparable scope

Consolidated sales came to € 13,293 million after € 12,935 million, showing a rise of only 2.8% due to changes in the scope of consolidation.
Major divestments of ready-to-serve and container business in the first half of 1999 were only partly offset by consolidation of new businesses.
Overall, exchange-rate variations had practically no effect.
While the devaluation of the Brazilian real had a severe negative impact, this was counterbalanced by the rise in the US dollar.
Sales growth at constant scope of consolidation and exchange rates was significantly higher, rising from 4.6% in 1998 to 5.7% in 1999, even though business in the first half of 1998 benefited from the highly favorable effects of the soccer World Cup.
The rise in 1999 sales was one of the strongest recorded by any major food group in the world.
This reflects the divestment of grocery and container businesses, both showing slower than average growth, as well as significant acceleration in activities retained.
Of the overall rise, 5% stemmed from increased volumes, while prices contributed only 0.7%, partly as a result of product mix.
Business outside western Europe was up a strong 10.6%.
Confirming favorable momentum, growth accelerated sharply from 4.5% in the first half of 1999 to 7.1% in the second.
At comparable structure, sales of the three core business lines — Fresh Dairy Products, Beverages and Biscuits — showed an overall rise of 6.2%.



Christian Laubie, Senior Executive Vice-President

Sales	
€ 13,293 million	+2.8% (+ 5.7% like-for-like[1])

Operating income	
€ 1,391 million	+7.6% (+ 11.4% like-for-like[1])

Operating margin	
10.5%	vs { 10.0% 1998 / 9.1% 1997

Net income	Excluding capital gains/losses
€ 682 million[2] + 14%	€ 653 million + 9.2%

Net earnings/share (diluted)	Excluding capital gains/losses
€ 9.38 + 15.1%	€ 9.00 + 10.3%

[1] at constant scope and exchange rates
[2] of which net capital gains/losses = EUR 29 million

Sales growth
at comparable structure

	Full year	1st half	2nd half
1999	+5.7%	+4.5%	+7.1%
1998	+4.6%	+6.6%	+2.7%
1997	+2.3%	+0.8%	+3.7%

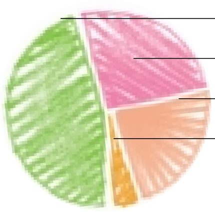
Operating margin up to 10.5%

Operating income rose 7.6% to € 1,391 million (FRF 9,123 million). At constant scope of consolidation and exchange rates, the rise was 11.4%, significantly outpacing sales growth on a comparable basis.
As a result, operating margin showed a further rise from 10% in 1998 to 10.5% in 1999.
This half-point rise was entirely attributable to improvement in recurrent operations, which benefited from healthy productivity gains and the launch of new, high-margin products.

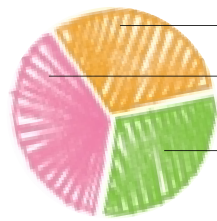
While divestment of lower-margin businesses, mainly pasta and ready-to-serve dishes, had a favorable effect, this was almost entirely neutralized by the consolidation of businesses generating margins significantly lower than the Group average.
These mainly concerned operations in Russia and beer distribution in France. The sale of the majority of the Container division had no significant effect on operating margin.
The rise in operating margin reflects a sharp reduction in the cost of products sold, partly offset by a rise in selling expense, since a portion of productivity gains was used to increase advertising outlays to spur sales growth.
Savings resulting from ongoing efforts to cut costs — historically particularly high in Europe — are also an increasingly important factor for business in other parts of the world.
In many countries, the Group now operates on a sufficiently large scale to offer scope for substantial synergies.
The growing importance of cross-company organizations in areas such as purchasing, information technology and research also makes for significant improvement in productivity of business outside western Europe.
In purchasing, the Group program has already generated annual savings of approximately € 100 million worldwide.
Since it has so far only covered some 40% of its potential, further substantial gains can be expected in the years ahead.

"Emmanuel Faber, age 36, French nationality, Chief Financial Officer since January 1, 2000 and member of the Executive Committee."

Sales by business line [1]



Sales by region [1]



1999 sales growth by business line
at constant structure [2]

1999 sales growth by geographical area
at constant structure [2]

[1] assuming 1999 divestments effective from January 1, 1999.
[2] at constant scope and exchange rates.

Net income up 14%

In 1999, net income came to € 682 million (FRF 4,474 million), an amount which includes net exceptional gains of EUR 12 million, in turn made up of € 29 million in capital gains on divestments and restructuring charges in an amount of € 17 million.

The bulk of the € 29 million in net capital gains stems from the sale of a majority interest in the container division, while the € 17 million in exceptional charges mainly relate to restructuring of logistics in Spain. Net interest expense eased slightly from € 146 million in 1998 to € 131 million in 1999. Since average net debt was steady, this decline reflects moderate improvement in Group financing costs, in turn largely due to early redemption of the 6.60% 1990 convertible bond issue in the first quarter of 1999. The rate of corporate income tax was slightly higher at 39.5% compared with 39.3% in 1998, mainly as a result of changes in the geographical origin of earnings. Minority interests rose from € 97 million in 1998 to € 110 million, mainly because of a significant improvement in income from the Asia-Pacific zone, where several major subsidiaries are owned in association with minority shareholders.

Key figures by business line

€ millions FRF millions	Sales 1997	Sales 1998	Sales 1999	Operating income 1997	Operating income 1998	Operating income 1999
Fresh dairy products	5,324	5,665	5,981 39,233	557	621	655 4,297
Beverages	2,755	3,004	3,565 23,385	327	368	440 2,886
Biscuits	2,674	2,607	2,822 18,511	181	203	222 1,456
Other food business	1,987	905	527 3,457	71	29	39 256
Containers	947	932	501 3,286	90	91	51 335
Intra-Group sales	-199	-178	- 103 -676	-2	-19	-16 -105
Group total	13,488	12,935	13,293 87,195	1,224	1,293	1,391 9,123

The contribution of affiliates accounted for by the equity method rose from € 25 million in 1998 to € 29 million in 1999. This reflects the combined impact of two transactions with partly countervailing effects in the second half of the year. On the one hand, Star was excluded following the sale of Danone Group's interest in the company, while on the other a minority interest in containers business was included under this heading following the sale of the Group's majority interest.

Earnings per share up 15.1%

Net earnings per share were up from € 8.15 in 1998 to € 9.38 in 1999, a strong rise reflecting both higher total net income and the positive impact of share buybacks.
In 1999, the Group bought 7.1 million of its own shares for a total of €1.72 billion.

A sound financial position

The overall impact of financial flows was a moderate rise in net debt from € 2,873 million at the end of 1998 to € 3,119 million at the end of 1999.
The ratio of net debt to equity rose from 39% to 45%, but this remains a very satisfactory level, allowing optimization of the cost of resources to create value while at the same time providing the Group with significant strategic leeway.
Cash flow from operations rose 7.2% to € 1,423 million. Working capital requirement, which is the object of strict control in keeping with the Group's emphasis on return on capital, fell by € 38 million after allowance for the impact of the sale of a majority interest in the container division at the end of the first half.

Capital expenditure totaled € 703 million or FRF 4,609 million or 5.3% of sales, an amount that includes the construction of a new factory at Wahaha.
Acquisitions of business and equity interests rose steeply to € 934 million (FRF 6,124 million) in 1999, compared with € 485 million or FRF 3,184 million in 1998 as the Group's commitment to international expansion led to a large number of transactions outside western Europe. Thus Danone Group:

- increased its interest in Bagley, Argentina, from 64% to 91%, and interests in two other Argentine companies, Mastellone and Aguas Minerales, from 51% to 100% and from 50% to 100%, respectively,

- acquired full ownership of Poland's leading biscuit maker / Delicja/Wedel; of Argentina's leading producer of bottled water, Villavicencio; of Morocco's leading biscuit maker, Bimo (in association with Danone's local partner ONA); and of Birtat, a leading Turkish producer of fresh dairy products (in association with the Sabanci Group, Danone Group's partner in Turkey)

- acquired interests of 20% in Galletas Noel, Colombia's leading biscuit maker; 20% in Sotubi, Tunisia's leading biscuit maker; and 46% in Bakoma, a leading Polish producer of fresh dairy products.

Key figures by business line

€ millions / FRF millions	Cash flows from operations 1997	1998	1999	Capital expenditure 1997	1998	1999
Fresh dairy products	542	586	615 4,034	277	253	312 2,047
Beverages	383	456	533 3,496	235	241	247 1,620
Biscuits	200	226	263 1,725	139	99	88 577
Other food business	114	37	37 243	54	30	13 85
Containers	113	108	60 394	86	84	40 262
Intra-Group sales	-123	-86	-85 -558	6	4	3 20
Group total	1,229	1,327	1,423 9,337	797	711	703 4,609

At the same time, Danone Group completed its move to refocus on core businesses, selling equity interests for a total of € 1,285 million or FRF 8,426 million.
These were essentially made up of interests in Marie Surgelés and Générale Traiteur in France, together with the sale of 56% of the Container division.

Return on invested capital and value creation show further progress

Reaping the rewards of the efforts pursued over several years to reduce capital employed and optimize financial structure, in 1999 Danone Group recorded:
- a further rise in return on invested capital from 8% to 8.8%
- a 25% rise in shareholder value creation to € 139 million (FRF 912 million).

Higher long-term interest rates led to a rise in the weighted average cost of capital from 7% in 1998 to 7.5% in 1999, limiting the rise in shareholder value creation.

Recent events

Danone Group has made four major transactions since the beginning of the 2000 financial year.
McKesson: in January, Danone Group acquired 100% of McKesson, a leader in home and office water deliveries in the US.
United Biscuits: Danone Group has undertaken to acquire a portion of the assets of United Biscuits, taken over by a group of investors within the framework of a public tender offer.
Robust: Danone Group has acquired 92% of Robust, a leading Chinese producer of bottled water and flavored dairy drinks.
European brewing: Danone Group has begun its withdrawal from brewing in Europe, selling control of its business in this area.

Key figures, Danone Group

€ millions FRF millions	1998	1999	change
Net sales	12,935	13,293 87,195	+2.8%
Operating income	1,293	1,391 9,123	+7.6%
Operating margin	10%	10.5%	
Net income (excluding minorities)	598	682 4,474	+14%
Operating cash flow	1,327	1,423 9,337	+7.2%
Capital expenditure	711	703 4,609	
Net financial borrowing	2,873	3,119 20,456	
Stockholders' equity	7,297	6,867 45,046	
Debt ratio	39%	45%	

Outlook

The drive to focus on core business lines was completed at the beginning of 2000 with the sale of the control of the Group's European brewing business.
The transaction is structured to ensure that, all things being equal, there will be no near-term impact on Danone Group's operating margin or net income.
Looking ahead, Danone Group will be continuing its efforts to reduce costs, while at the same time pursuing a strategy of profitable growth based on effective innovation in its three core business lines.
International business will carry increasing weight, since a combination of ongoing acquisitions and sustained organic growth will make for continued expansion outside western Europe, while at the same time European brewing will be removed from the scope of consolidation.
Earnings per share should continue to rise despite upward trends in prices for some raw materials such as PET.

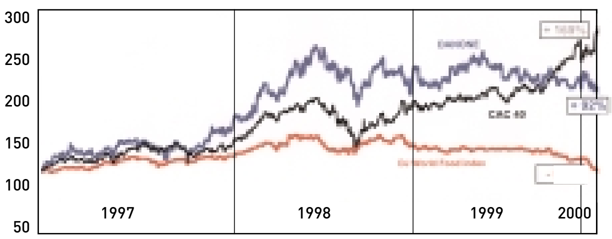
Share performance and ownership

Market conditions difficult

Danone Group share price

+49% in 97 +48% in 98 -5% in 99

change in stock price on the final trading day of the year



Danone share price compared with CAC 40 index and DJ World Food Index from Dec. 31, 1996 to Feb. 14, 2000.

1999 share performance

Danone Group shares rose sharply in both 1997 and 1998, then marked time in 1999, as a wave of mergers and acquisitions swept the market. Other contributing factors included a shift in investor favors from traditional sectors such as food to technology stocks, plus food safety worries including the dioxin scare.
Signs of increased concentration in retailing also took a toll.

One of the world's top-performing food stocks in 1999

Danone Group shares held their own in this difficult period, which saw an overall decline in the world's main food indices including a 19% fall for the DJ World Food Index.
This reflected investor confidence based on extremely sound fundamentals, as well as the Group's focus on core businesses offering strong growth potential.

Operating margin rose steadily, while robust organic growth made the corporation a world leader in its sector.

Average shareholder return up 30% p.a. over the past three years

With total shareholder return — defined as share price + dividend, including tax credit — averaging 31% a year from 1997 to 1999, Danone Group holds a clear lead among international food groups.

Average annual return (per year)[1]
from Dec. 31,1996 → Dec. 31,1999

Danone Group	+31.1%
Sample of food stocks [2]	+10.25%

[1] stock price + dividend
[2] Unilever, Nestlé, Kellogg Co. , General Mills, Coca-Cola, PepsiCo, Bestfoods, Cadbury, Philip Morris

Return on FRF 100 invested

At Dec. 31, 1989 → FRF 277.16 at Dec. 31, 1999*
At Dec. 31, 1996 → FRF 226.05 at Dec. 31, 1999*

* rise in share price + dividend

Steep rise in per-share dividend

The Board of Directors proposes that the General Meeting approve a € 3.5 per-share dividend on 1999 activity.

Dividend per share for 1999 business

€ 3.5 → +16.7%

(subject to approval of the General Meeting of Shareholders)

Share capital

Ownership

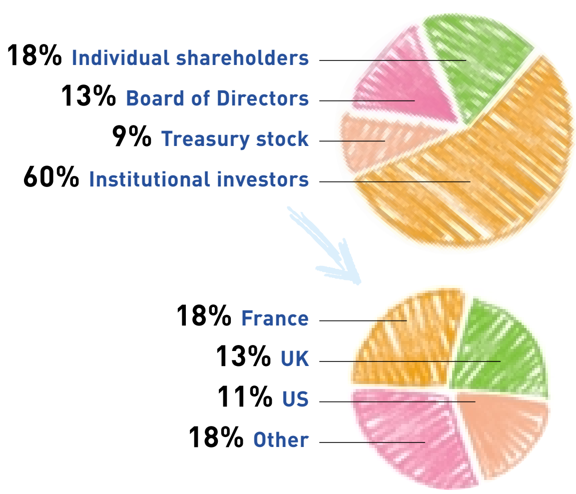
Main features of Danone Group ownership include:

- large float, equal to 80% of total share capital
- international spread, with 40% of shares owned by shareholders outside France
- key role of individual shareholders, who own 18% of capital.

Main shareholders at December 31, 1999

	% of share capital	% of voting rights
Eurafrance	5.96%	8.80%
Worms & Cie	4.27%	7.79%
Findim	2.25%	4.10%

Shareholders at December 31, 1999



Institutional investors by country

Pro-active financial strategy

In 1999 Danone Group pursued an ambitious financial policy that boosted shareholder value and effective net earnings per share. Initiatives have reduced the number of shares, lowered the average cost of debt and optimized financial structures.

Summary of 1999 share buybacks

€ 1.7 billion invested

7.1 million shares bought back (9.6% of total equity)

8.9% of capital held as treasury stock at Dec. 31, 1999

Danone Group share profile

Nominal value --> € 2 per share at Dec. 31, 1999

Number of shares --> 74.1 million at Dec. 31, 1999

Listed in

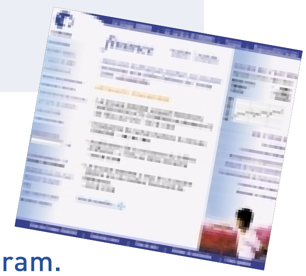
Paris (monthly settlement compartment), London, Brussels, Zurich, Geneva, New York (NYSE) in the form of American Depositary Shares (5 ADR = 1 Danone Group share)

Main share codes

Bloomberg --> BN FP

Reuters --> DANO.PA

Sicovam --> 12064



Share buyback: In 1999, Danone Group pursued an aggressive share buyback program. Since July 1998, the Group has spent € 2.1 billion in one of the largest such initiatives to date by a CAC 40 component stock, paying out an amount close to that received in exchange for divestments of containers and grocery operations.

Early redemption of convertible bonds: After early redemption in the opening months of 1999 of 6.6% convertible bonds issued in 1990 and maturing in 2000, Danone Group made a similar move for 3% 1993-2002 convertible bonds. This led to considerable savings on interest expense and optimized capital structure.

Cancellation of shares: in June 1999, Danone Group cancelled treasury stock representing 4.5 million shares, in keeping with the authorization voted by the General Meeting of Shareholders on May 19, 1999.

Shareholder information

Danone Group issues regular updates on results, key developments and strategy to both shareholders and the financial community as a whole.

Earnings per share

	1996	1997	1998	1999	
Number of shares outstanding at year end	72,639,149	73,071,609	73,924,810	74,135,588	
Number of shares used to calculate EPS (diluted)	79,076,442	79,092,534	78,557,577	74,495,001	
in €					in French francs
Net EPS (diluted)	7.06	7.63	8.15	9.38	61.51
Net divided per share	2.59	2.82	3.00	*3.50	22.96
Net dividend (including French tax credit)	3.89	4.23	4.50	*5.25	34.44
Payout ratio	37%	37%	37%	37%	
Total yield	3.5%	2.6%	1.8%	2.2%	

Alongside press and traditional media, Danone Group makes extensive use of the Internet to ensure distribution of press releases to major international financial databases.
The Group also has a special website for financial information, aimed specifically at shareholders and market professionals.

Retail investors

Danone Group uses a range of resources to keep individual investors abreast of key developments:

Letters to shareholders,
published twice a year,
are mailed to each identified shareholder owning over 10 shares.

An annual report is available on request in French and English.

A website featuring financial information:
www.finance.danonegroup.com

In 1999, Danone Group won two awards for the quality of its financial information:

- Best Reference Document, (the equivalent of the 20-F) filed with the Commission des Opérations de Bourse, the Paris Bourse supervisory authority

- the Grand Prix Cristal for transparency of financial information.

Securities analysts and institutional investors

Danone Group organizes regular meetings with securities analysts and institutional investors at venues around the world.

In 1999, senior management spent 26 days outside France, in London, Frankfurt, New York and other cities, holding individual meetings with 150 institutional investors.

Key market data

€ millions

	1996	1997	1998	1999
Market capitalization at December 31	8,005	11,964	17,971	17,347
Closing price on last trading day of the year (€)	110.2	163.9	243.9	234.0
High (€)	126.5	172	287.4	275.1
Low (€)	103.2	108.5	156.7	205.8
Average daily trading volume ('000 of shares)	165.4	254.9	267.7	262.4

Human resources

Efficient teamwork the key to performance

For Danone Group, profitable growth can only be achieved by rallying employees to a shared cause and adopting appropriate structures.
To this end, the human resource department focused on three priorities in 1999:
- setting up structures to promote performance and swift implementation of decisions
- training
- building a strong corporate culture.

Networks link business lines

To make the most of the synergies offered by a worldwide presence while retaining the ability to react quickly that is essential to success, Danone Group has opted for flexible structures rather than a centralized corporate hierarchy.
In 1999, each business line thus structured its teams into networks, forging cross-divisional links and responsibilities.
Example: Executive Committee members for each core business are in charge of both their own division and at least one overlay project. This approach has paid off, ensuring faster circulation of expertise and greater collective efficiency.

Developing expertise

Danone Group aims to fill a high proportion of key management positions through internal recruitment, and 1999 saw a number of advances in this field. A standard model is now applied to all executive performance reviews, in all countries and subsidiaries.
Fast-track options are also more widely used, giving candidates access to jobs that cut across functions and geographical markets. This has made for more efficient procedures to identify and develop promising talent. At year-end 1999, 70% of key job openings were filled by in-house candidates, a figure set to rise to 80% in 2001.

Manager commitment

In 1999, Danone Group commissioned a wide-ranging survey of its 7,300 managers around the world. Results confirmed an overwhelming commitment to corporate ideals: a full 73% of managers completed all 170 questions, and 90% of respondents indicated that they were proud to work for Danone.

Social responsibility

Since 1998, Danone Group has published an annual summary of Group initiatives and achievements in serving the community and society at large.

“Jean-René Buisson, age 52, French. Executive Vice President, Human Relations since 1996, and a member of the Executive Committee.”

"You don't work for Danone Group — you work with Danone Group"

Management: an international profile

A business operating worldwide needs a truly international corporate culture to develop efficient teamwork. Aware of the challenge, Danone has set up international training programs for young recruits in Asia, Eastern Europe and Western Europe. Since 1998, the Young European Graduates program has given 150 new managers assignments outside their home country as their first posting with Danone.

Virtual teaching and a roving university

Innovative approaches to deploying Group training programs around the world include Danone's Marketing University, combining traditional seminars with e-learning over the Internet. The recently created Danone International University will also give a major boost to Group investment in training, with over 1,200 managers taking courses in 1999.
The aim is to develop an in-house virtual university, meeting several times a year in different venues to offer participants the full range of Danone seminars.

Corporate culture built on concrete initiatives

Efficient teamwork assumes a shared corporate culture. At Danone, this is based on a commitment to three underlying values — openness, enthusiasm and humanism — and the management principles they imply, which demand an enquiring mind, quick reflexes, and the willingness to take bold initiatives and assume responsibility.

www.careers.danonegroup.com

Only weeks after launch, Danone Group's career & recruitment site was generating nearly **1,000** resumés a month.
Medium term, virtually all recruitment of young managers will be on line.

Which clearly must be embodied in action. The Group's support for the Children's Hour project is an excellent example of Danone's principles in action. The Executive Committee decided to celebrate the year 2000 by offering the equivalent of one hour's salary for each employee to charities providing aid to needy children. Nearly one in two employees then lent their personal support to this worldwide project, doubling the corporation's initial contribution.

Group employees by geographical area

Employees of fully consolidated companies at Dec. 31

	1998		1999	
France	20,343	25.8%	15,790	20.8%
Rest of Western Europe	21,827	27.6%	17,974	23.7%
Sub-total Western Europe	42,170	53.4%	33,764	44.5%
Central Europe	2,534	3.2%	7,146	9.4%
Asia-Pacific	23,638	29.9%	24,283	32.0%
North & South América	10,603	13.4%	10,772	14.2%
Sub-total International	36,775	46.6%	42,201	55.6%
Group total	78,945	100%	75,965	100%

Group employees by division

Employees of fully consolidated companies at Dec. 31

	1995	1996	1997	1998	1999
Fresh dairy products	19,750	21,599	21,743	21,696	22,023
Beverages	8,967	14,084	18,864	20,651	23,031
Biscuits	26,099	27,647	26,644	24,797	27,849
Other food business	11,095	10,760	6,020	4,598	2,535
Containers	7,468	7,035	6,858	6,708	-
Head office + misc. companies	444	454	504	495	527
Group total	73,823	81,579	80,631	78,945	75,965

Fresh dairy products

Developing the top brand for healthy eating

In building for the future, Danone Group can draw on a range of resources, from innovative flair and recognized expertise in managing food quality and safety to a brand name that benefits from one of the highest consumer confidence ratings anywhere.

In this fast-moving segment, demand for healthy eating and food safety has continued to rise. There is no shortage of growth opportunities, including:

- **new product categories such as Actimel, aimed at active, health-conscious consumers**
- **promotion of snacking away from home, where a string of drinkable products and spinoffs offer major scope for expansion**
- **promising prospects in countries such as India, China and Brazil**
- **A relatively fragmented world market, with 70% of output still produced by local players.**

Sales

In 1999 sales rose 5.4% at constant structure and exchange rates, confirming momentum observed in 1998.

Contributing factors included a constant focus on innovation, plus structures and initiatives cutting across several divisions to ensure efficient deployment in new geographical markets.

Nearly all companies in the fresh dairy products division reported higher sales, despite upsets in Europe due to the dioxin scare at the end of the first half. Revenues rose vigorously in Western Europe, Central Europe, Brazil and Mexico, with more uneven trends in North America despite a strong close to the year.

In Argentina, the economic downturn left sales

“Jan Bennink, age 43, Dutch. Executive Vice-President, Fresh Dairy Products Worldwide since 1995 and a member of the Executive Committee.”

"Partnership with farmers for premium milk"

The world's **No.1** producer of fresh dairy products with around 15.5% of the market. A leader in Western and Central Europe, North America, Latin America and North Africa. Strong positions in Italian-style cheeses through Galbani, and infant foods in France with Blédina. Fresh dairy products account for 47%* of sales and 48%* of consolidated operating income.

* pro forma based on full-year elimination of 1999 divestments

World demand for fresh dairy products

- → 18.5 million tons
- → € 36 billion
- → Annual per capita consumption in Western Europe: 20 kg
- → Annual per capita consumption in the rest of the world: 2.6 kg

unchanged, while in Russia, where operations were consolidated for the first time this year, business showed a marked decline.

Operating margin

Operating margin was a steady 11%, hit by lower profitability in Brazil and Argentina as well as the loss of business and added costs incurred as a result of the dioxin crisis in Europe.

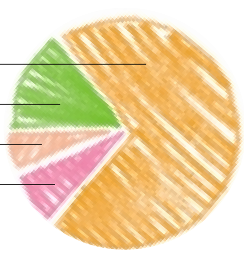
Europe

The Danone brand is the undisputed leader in Europe for fresh dairy products.

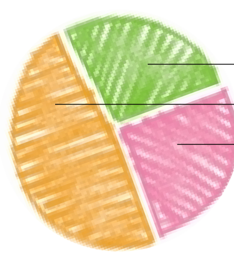
France

Danone Group raised its leading position in France for the third year running, with a market share more than twice that of its closest direct competitor.
This strong showing was due in large part to successful new product launches during the

Sales by market segment



Sales by region



→ Key figures
€ millions

	1996	1997	1998	1999	1999 FRF millions
Sales	4,843	5,324	5,665	5,981	39,233
Operating income	503	557	621	655	4,297
Operating margin	10.4%	10.5%	11%	11%	11%
Cash flows from operations	511	542	586	615	4,034
Capital expenditure	208	277	253	312	2,047
as % of sales	4.3%	5.2%	4.5%	5.2%	5.2%
Employees	21,599	21,743	21,696	22,023	22,023

→ Country review
€ millions

	local rank	sales
France [1]	No.1	1,464
Italy [2]	No.1	1,233
Spain	No.1	817
Germany	No. 2	303
Eastern Europe	No.1	333
United States	No.1	488
Argentina	No.1	251
Brazil	No. 2	141

[1] Danone + Blédina [2] Danone + Galbani

year — Jockey Petit Encas and Danette Mousse — plus a steady rise in other recent products including Actimel, Danao, Crème de Yaourt, Danette, Danette and Crème Liégeoise, as well as the growing popularity of the Charles Gervais brand.

In a fast-moving market, Blédina — France's top producer of infant foods — gained from the success of new products Bledîner, Bleditalia and Bledichef ethnic specialties. Diet-product specialists Gayelord Hauser and Athlon were sold at the end of 1999 as part of an on-going drive to focus on core businesses.

Spain

Danone Spain ranks first in Spain with a market share of over 50%.

Sales rose over 10% during the year and profitability improved. Sales of Actimel more than doubled, while over 5,000 tons of Crème de Yaourt — launched at year-end 1998 — were sold. In desserts, the year saw further vigorous growth with continued development for Flan Maestro and the launch of Mousse Maestras.

Portugal

With over 25% of the market, Danone Portugal leads the field. Sales rose nearly 20% during the year.

Actimel a hit around the globe

Sold in 14 countries.
Worldwide sales of over € 160 million up 90%.

Belgium

1999 was a very good year, with sales up 10% and market share surging to over 40%. Buoyed by the successful launch of Vitalinéa, Danone is now market leader in low-fat products.

Germany

Sales of Danone Group brand products rose around 7% in a sluggish market. Actimel continued to win market share and Granfrutta was revamped and relaunched successfully.

Italy

With overall demand for fresh dairy products marking time, Danone Group raised sales volumes by around 5% and increased its market share.
Actimel was successfully rolled out and the low-fat Vitasnella lines continued to gain ground.
Faced with fierce competition and stagnant demand, Galbani reported flat sales in 1999, with cheeses up slightly and pork products falling back.
Exports continue to show promising trends.
Restructuring continued in 1999 with the closure of two plants and implementation of a new policy for logistics and IT.

United Kingdom

Actimel's UK launch in 1999 was a success. Today Danone Group is a leader in the market segment catering to health-conscious consumers, where it is also represented by the Bio brand.

Eastern Europe

Sales continued to forge ahead, rising a steep 17%, while market share was up from 17% in 1998 to 23% in 1999.
In the Czech Republic, success was underscored by a rise of over 40% in sales; Poland and Hungary continued to report growth running at over 10%. In Russia, where the local subsidiary was fully consolidated

"Innovation for a healthy, active life"

for the first time in 1999, sales and profitability declined amid tough economic conditions.

North America

Canada

Danone Group is a leader in this fast-moving market, with sales up nearly 10%.

United States

In 1999, Danone Group took the first steps in implementing its new strategy in the United States.
Dannon, the market's leading brand, raised its profile by more than doubling advertising outlays.
The year saw successful relaunches of two major products catering to adult tastes — Light and Fruit on the Bottom.
In the fast-growing children's market, results were promising.
Relaunch of Danimals yogurt boosted sales more than 20%, and a drinkable format recently put on the market was a hit from the start.

Latin America

Mexico

Sales have continued to rise at a swift pace — over 25% — across the entire product range. Gran'Dia jumped 25%, driven by a relaunch, while Danette had won 19% of the market a scant six months after launch.

Argentina

With demand declining as a result of economic difficulties, Danone Group managed to raise its market share to over 58%.
Sales edged up 1% and profitability improved, due primarily to the group's successful focus on innovation.

Brazil

Sales rose 6% at comparable structure in a market that lost pace due to economic strains and the real's devaluation. Now market leader, Danone Group has embraced an energetic marketing policy based on multiple launches and relaunches. Yet fierce competition limits scope for price hikes, and profitability has been severely affected.

Other markets

South Africa

Sales rose more than 25%, driven by the popularity of Danone Corner, product relaunches and completion of a nationwide distribution network.

Danone Partners (non consolidated)

Companies in which Danone Group holds a majority interest and which sell Danone brand products, had a good year in 1999.
Sales in Morocco and Tunisia showed a robust rise, with newly launched Danette doing particularly well in Tunisia.
In Israel, Strauss Dairy reported a rise in sales despite lackluster economic trends. Actimel, launched at year-end 1998, has proved a great success.
In Greece, Delta Dairy raised market share to over 30%.
Finally, in Japan, Calpis Ajinomoto Danone reports growth across all segments, with low-fat lines doing particularly well.

Activities in Asia-Pacific are described in the section devoted to this region; see page 40.

Highlights

→ Argentina: Danone Group raises its stake in market leader Mastellone from 51% to 100%.

→ Poland: acquisition of a 46% interest in the market's No. 2 player, Bakoma.

→ United States: acquisition of 20% of Lifeway, specialized in fast-growing probiotics.

→ France: Gayelord Hauser and Athlon health-food products sold.

Beverages

"Unthirst the world" for global leadership

Danone Group targets the top spot in one of the food and beverage market's fastest-growing sectors. The appeal of packaged water is built on association with health and rising consumer demand for products offering a guarantee of food safety. Scope for profitable growth is enormous, in both the developed world and emerging markets.

- 75% of the world market is controlled by local players

- world consumption of packaged water is rising 7% a year on average

- new formats and distribution opportunities open promising new markets with real growth potential.

Danone Group's strategy is based on active expansion into new geographical markets, combined with an ambitious program of new-product development aiming for the very highest quality.

Sales

Beverage sales rose 9.4% at constant structure and exchange rates, with water making a prime contribution: sales were up 7.7% in Europe and 12.3% outside Europe.
In the United States, Dannon Water confirmed past success, with sales rising 30% in an expanding market.
In China, Wahaha reported continued strong growth and sales of bottled water topped 800 million liters.
In Latin America, sales rose sharply in Mexico but were patchier in Argentina due to difficult economic conditions.
Beer sales edged up 1.8% in a generally stable European market.

Operating margin

In beverages, operating margin was a steady 12.3% for the year.

"Pedro Medina, age 40, Venezuelan. Executive Vice President, Water Worldwide since 1998 and a member of the Executive Committee."

"Unthirst the world — all the world"

No. 2 worldwide in bottled water, with **9%** market share. A leading player in Europe — the world's largest market — and in North America.
No. 1 in the emerging world, and market leader in China, Indonesia and Argentina.
3 of the world's top 4 brands (in volume): Evian, Volvic and Wahaha. One of Europe's top brewers, with strong positions in China.
Beverages represent **28%*** of Group sales and **32%*** of operating income.

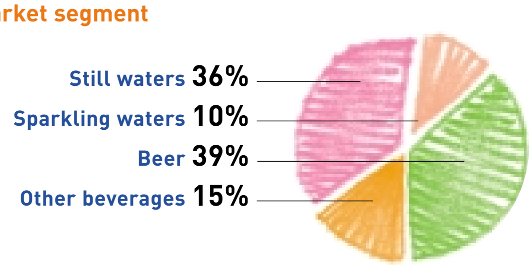
*pro forma based on full-year elimination of 1999 divestments

World market for packaged water

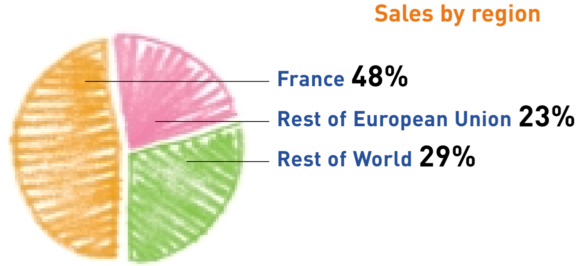
- → 89 billion liters
- → € 26 billion
- → Annual per capita consumption in Western Europe: 84 liters
- → Annual per capita consumption in the rest of the world: 10 liters

This overall figure includes a rise at nearly all division companies that was cancelled out by consolidation of beer distribution activities in France, grouped within Elidis. Restated to offset the negative impact of Elidis — more than half due to non-recurrent expense from previous years — margin was 12.8%.
In the US, Dannon Water reported a significant rise in operating margin, with operations approaching breakeven after four years in business.

Sales by market segment



Sales by region



→ Key figures
€ millions

	1996	1997	1998	1999	1999 FRF millions
Sales	2,447	2,755	3,004	3,565	23,385
Operating income	277	327	368	440	2,886
Operating margin	11.3%	11.9%	12.3%	12.3%	12.3%
Cash flows from operations	363	383	456	533	3,496
Capital expenditure	198	235	241	247	1,620
as % of sales	8.1%	8.5%	8.0%	6.9%	6.9%
Employees	14,084	18,864	20,651	23,031	23,031

→ Country review
€ millions

Beverages (except Beer)	local rank	sales
France	No2	777
Spain	No1	167
Italy [1]	No2	176
United States	No2	323
Canada	No1	54
Argentina	No1	51
China	No1	500
Indonesia [2]	No1	59

[1] sparkling waters [2] company accounted for on an equity basis

Water

Europe

France

Evian sales rose 5%, buoyed by a particularly successful advertising campaign.
For Badoit, revenues climbed more than 6%, reflecting increased advertising outlays and the launch of a new PET bottle.
Volvic made a return to growth, with flavored varieties remaining extremely popular.
Evian and Volvic both launched new 1-liter bottles, a smaller format better suited to consumers on the go; results are promising.
Talians, a high-calcium still water brand, was launched in France in the last quarter of 1999.

Spain

Danone Group controls nearly 40% of the fast-moving Spanish market, where sales of market leaders Font Vella and Lanjaron jumped more than 10%. Large-format bottles — Lanjaron Grande and Font Vella Maxi — proved particularly popular.

Italy

The year got off to a slow start, but sales picked up sharply in the second half.
The new Ferrarelle 2-liter family bottle was a hit.
The first Danone-brand European water is set for launch in the first half of 2000.

Exports in Europe

It was another good year for European exports of Evian and Volvic, with volumes up 30% on 1998.
Evian is market leader in still water in the UK, while Volvic leads the field in Germany.

North America

Canada

Sales continued to rise, gaining more than 10%, driven by robust demand for home and office deliveries.
Aquaterra rolled out the Group's first on-line purchasing site.

United States

Today Danone Group is the only water specialist in the US serving all market segments with nationwide brands.
As concentration gathers pace in retailing, this strategy is a definite plus: distributors are shifting from regional to national suppliers, seeking savings through reductions in the number of both suppliers and products carried.
In the fast-growing US market, Dannon Water sales rose more than 30%.
The brand is distributed primarily through supermarkets, where it shares first place nationwide with Evian, accounting for over 11% of the market.
Major synergies generated by the successful consolidation of Aquapenn, acquired in 1998, have accelerated Dannon's progress on the road to profitability and operations approached breakeven in 1999.
Following the acquisition of McKesson in January 2000, Danone Group is now the country's second largest full-range supplier of packaged water, with 16% of the market.

3 of the world's top 4 brands of bottled water

No. 1 worldwide: Evian
1,441 million liters sold in 1999

No. 3 worldwide: Volvic
937 million liters sold in 1999

No. 4 worldwide: Wahaha
836 million liters sold in 1999

"Water and fitness — an ideal match"

Latin America

Argentina

With the acquisition of Villavicencio in 1999, Danone moved into the number-one spot in Argentina, with a market share of over 50%.

Faced with difficult economic conditions, Aguas Minerales held the decline in its sales volume to 1% with a new advertising approach and the launch of a new PET bottle.

Villa Alpina was buoyed by strong growth in demand for home and office deliveries, its specialty. Despite the sluggish economy, profitability was significantly higher.

Mexico

Buoyed by demand for bottled water and marked improvement in its distribution network, Bonafont raised sales volumes by more than 20% and profitability continued to rise.

Exports to Japan

Japan's leading imported water brand, Volvic pursued a strategy aimed at winning market share in the key vending-machine segment, representing over two million units.

This included the launch of a specially designed bottle sold through more than 250,000 DyDo vending machines nationwide.

Beer

Group sales edged up in a virtually flat market in Europe.

France

Sales rose 2.5% with market share steady.

Consumers confirmed their preference for brand-name and specialty products.

As in 1998, private-label and discount brands lost ground, with sales down 6.7% in value.

Spain

For Mahou and San Miguel, sales growth exceeded the market average.

Belgium

By focusing on its leading brands Maes and Grimbergen, the Belgian subsidiary raised profitability substantially during the year.

Operations in Asia-Pacific are described in the section devoted to this region; see page 40.

Highlights

→ Argentina: Danone becomes market leader following acquisition of Villavicencio.

→ United States: Dannon Water becomes the country's top-selling brand in supermarkets.

→ France: Evian advertising campaign proves a hit, raising market share.

→ Turkey: Danone brand sparkling water launched.

→ Consumers welcome new formats, including smaller bottles for consumption away from home as well as larger family sizes.

Early 2000

→ United States: Danone Group buys McKesson, becoming the country's second largest full-range supplier of packaged water.

→ France: Danone begins withdrawal from beer business in Europe.

Biscuits

Consolidating world leadership

Biscuits have universal appeal and are eaten by over 80% of the world's population. They are thus a major food category in their own right, offering significant potential for business expansion. In addition, local producers currently meet over 75% of demand, making for a large number of acquisition opportunities.
Danone Group has shown that the sector offers substantial scope for organic growth in both industrialized countries and the developing world.
Results already achieved are highly encouraging, and Danone Group will be continuing to favor new patterns of consumption with an innovative strategy centered on:

- **a forceful message emphasizing the nutritional benefits of grain**
- **a steady flow of new products for enjoyable, healthy eating**
- **new packaging and formats to encourage snacking and eating away from home.**

Emphasizing product differentiation and value, this strategy should make for rising margins as well as growth in keeping with group aims.

Sales

At constant scope of consolidation and exchange rates, sales rose 3.4% in 1999. This figure reflects voluntary moves to limit low-margin production for other labels combined with significantly stronger growth for products marketed under the Group's leading brands.

Focus on these brands, backed by an ongoing commitment to product innovation and a new approach to communications stressing the nutritional value of biscuits, has yielded highly encouraging results.

Thus, sales under the LU brand in France and Belgium rose 8%, while sales in China and India were up by over 15%.
However, overall growth was significantly affected by market contraction in Argentina and Russia.

“Jean-Louis Gourbin, age 53, French nationality. Executive Vice President, Biscuits Worldwide since 1999 and a member of the Executive Committee.”

"Biscuits help you grow!"

No.1 worldwide in sweet biscuits with **9.5%** market share.

No.1 in Western Europe and the emerging world.

A leader in Central Europe, South America, Asia and North Africa.

Generating **22%*** of consolidated sales and **16%*** of operating margin.

*pro forma based on full-year elimination of 1999 divestments

World demand for biscuits

- → 12.5 million tons
- → € 47 billion
- → Annual per capita consumption in Western Europe: 8.4 kg
- → Annual per capita consumption in the rest of the world: 3.7 kg

Operating income

Operating margin improved slightly, edging up from 7.8% in 1998 to 7.9% in 1999. This reflects a moderate rise in Europe and swift gains in Asia combined with patchier results in Latin America and eastern Europe due to difficulties in Russia and Brazil.

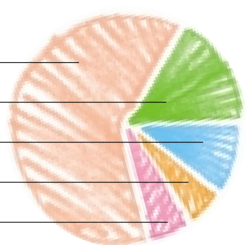
Western Europe

France

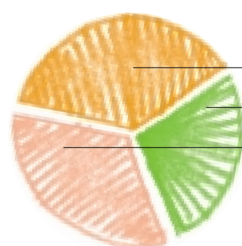
The French biscuit market expanded by nearly 5% for the first time in a good number of years, with LU — which accounts for over a third of the total — providing much of the momentum.

Sales under the LU name rose more than 8%, reflecting the success of the Taillefine range and Belin's new offerings. Other factors included the growing popularity

Sales by market segment



Sales by region



→ **Key figures**
€ millions

	1996	1997	1998	1999	1999 FRF millions
Sales	2,600	2,674	2,607	2,822	18,511
Operating income	175	181	203	222	1,456
Operating margin	6.7%	6.8%	7.8%	7.9%	7.9%
Cash flows	201	200	226	263	1,725
Capital expenditure	131	139	99	88	577
as % of sales	5%	5.2%	3.8%	3.1%	3.1%
Employees	27,647	26,644	24,797	27,849	27,849

→ **Country review**
€ millions

	local rank	sales
France	No. 1	1,046
Benelux	No. 1	212
Italy	No. 2	170
Eastern Europe	No. 1	210
Argentina	No. 1	191
Brazil	No. 1	74
India	No. 1	230
China	No. 1	46
New Zealand	No. 1	104

of Ourson biscuits with children and the renewal of traditional lines such as Véritable Petit Beurre butter cookies.
Heudebert continued to do well in crispbreads and cereal bars under the Grany brand, reporting significant rises in its share of both segments.

Benelux

As in France, branded products scored healthy gains, with sales up by more than 7%.
This reflected the success of new products such as Pim's Médaillon for adults, and Teletubbies and Ourson for children, as well as firm trends in snacking away from home.
Market shares showed a moderate increase in the Netherlands and a steeper rise in Belgium, in both cases at the expense of retailer brands.

Italy

Against this backdrop of stiff competition, Saiwa continued its drive to refocus on leading brands. Oro Ciok, the Italian version of Petit Ecolier, continued to show strong growth in the sweet biscuits segment.

United Kingdom

While there were significant declines in a number of important market segments, Danone Group made the most of a strategy designed to focus on strong points and put profitability first.
The group confirmed its number-one position in crackers, where its market share reached 24%, with sales of Choice Grain and Cracker Assortment lines showing vigorous rises.
Vitalinea scored a big success and was one of the few lines in the diet segment to show a significant rise in sales revenues.
Buoyed by a string of product launches, sales were up 30% and market share increased.

Low-cal biscuits

Launched in 1996 in Belgium
Now sold in 10 countries
Sales: € 76 million,
up 67% in 1999
Savory line launched in 1999

Spain

After a difficult start to the year, LU Spain enjoyed more favorable conditions in the second half and was able to hold market share steady.

Greece

The company continues to report healthy sales growth.

Eastern Europe

Danone Group is a leader in the region through subsidiaries including Opavia in the Czech Republic and Slovakia, Delicja/Wedel in Poland and Bolshevik in Russia.
All three companies were fully consolidated for the first time in 1999.

Czech Republic and Slovakia

Opavia, resulting from the split-up of Cokoladovny — previously jointly owned by Danone Group and Nestlé — is a leader in both countries with market shares of 78% and 38%, respectively.

Despite difficult economic conditions that caused a general decline in spending on food, sales showed healthy rises, reflecting successful innovation with Vitalinea and Piskoty, as well as increased advertising outlays.
Profitability improved significantly.

"Biscuits with worldwide appeal"

Poland

Acquired in 1999, Delicja/Wendel is Poland's top biscuit maker.
While the combination of sluggish growth in consumer demand and stiff competition made for difficult conditions in 1999, Danone Group was able to report a significant rise in both sales and profitability, reflecting the benefits of innovation and efforts to enhance productivity.

Russia

Bolshevik continued efforts to adapt to new conditions, slashing fixed costs and overhauling its ranges.
Following a difficult start to the year, sales rallied sharply.
With its reputation for quality, Bolshevik is now a highly attractive alternative to imports. Rewarding unstinting efforts, the company was able to maintain a positive operating result for the year.

South America

Danone Group is the market leader in South America, with strong positions in Brazil and Argentina.
These were rounded out in 1999 with the acquisition of an interest in Colombia's top biscuit maker.

Brazil

Against a backdrop of generally unfavorable economic trends, demand for biscuits remained flat in 1999 after five years of strong growth.
At the same time, the success of the new range under the Danone name enabled the Group to increase its market share, with sales up more than 10%.
However profitability suffered from the devaluation of the real, which pushed up the cost of goods sold even as market conditions stood in the way of price rises.

Argentina

Argentina's leading brand, Bagley, faced a 10% decline in the biscuit market as a result of recession.
Company sales nonetheless showed only a limited decline thanks to promotional drives and the highly successful launch of the SER diet range.
In addition, efforts to raise productivity over previous years were rewarded, as operating margin held steady despite difficult conditions.

Activities in Asia-Pacific are described in a section devoted to this region; see page 40.

1999 Highlights

- → Argentina: Danone Group's interest in Bagley raised from 64% to 91%.
- → Poland: acquisition of the top Polish biscuit maker, Delicja/Wedel.
- → Germany: Danone merges its biscuit business with Griesson's, taking a 40% interest in the new entity.
- → Acquisitions of 50% of Bimo in Morocco, 20% of Galletas Noel in Colombia and 20% of Sotubi in Tunisia — three companies with leading positions on their markets.
- → Business in the Czech Republic, Slovakia, Russia and Poland is fully consolidated for the first time.

Early 2000

- → Danone Group acquires some operations belonging to United Biscuits.

Asia-Pacific

Building further momentum for success

Danone Group's strong positions in one of the world's most promising regions are an undeniable strategic advantage. They include number-one rankings:

- **No. 1 in water, with a leading share of the Chinese market, currently growing at a rate of over 20% a year;**
- **No. 1 in biscuits, with top positions in China and India, two of the world's three largest markets.**

Danone Group is committed to further rapid development in the region, through moves to consolidate existing positions or broaden geographical scope. In this, it will continue to apply its strategy of profitable growth, which has already been rewarded with rates of return on capital invested that are higher in the region than for the Group as a whole.

Sales

A 24.8% like-for-like rise in sales illustrates the vigor of the region's emerging economies. Growth was particularly brisk in China, where sales rose by over 30%.
Trends were also vigorous in India, Malaysia and Pakistan, with sales growth topping 15%. In New Zealand, a mature market, rises were more similar to those recorded in Europe.
Beverages benefited from rapid expansion in China and were the strongest performers, with water sales alone showing an increase of nearly 50%.

Biscuit sales also quickened to show a rise of over 15% in the region's emerging economies.
Turning to sauces, growth was healthy in continental China, but demand in Hong Kong suffered from unfavorable economic conditions.

"Simon Israel, age 47, nationality New Zealander. Executive Vice President for Asia-Pacific since 1996, and a member of the Executive Committee."

"Danone — wherever the sun rises"

No.1 in bottled water and biscuits in Asia-Pacific. No.1 in China in water, biscuits and fresh dairy products. No.1 in India in biscuits. No.1 in Indonesia in water. (company consolidated on an equity basis in which Danone Group has a 40% interest)

Asia-Pacific markets account for 8.8%* of Danone Group sales.

* pro forma based on full-year elimination of 1999 divestments

1999 key indicators

China represents over 60% of sales in the region.
4 companies together account for nearly 80% of sales in the region:

China: Wahaha and Amoy
India: Britannia
New Zealand: Griffin's

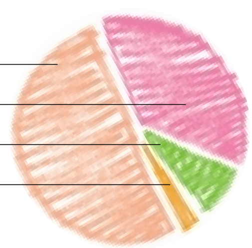
Operating margin

Significant rises in operating margin reflect improvement at nearly all group companies in the region. Strong growth fueled by new products as well as efforts in recent years to raise productivity provided a favorable setting.

China

Total sales rose by over 30%, while Wahaha recorded a rise of over 50%, confirming its number-one place on the beverage market in China.
The company is the country's top producer of bottled water, with sales exceeding 800 million liters after three years in operation.
It also ranks first in its traditional flavored dairy-drink business, which continues to show rapid growth.
Finally, Wahaha ranks third in soft drinks.
Biscuits carrying the Danone name have moved into first place on the Chinese market, with milk-enriched biscuits winning continued

Sales by market segment



Sales by region

Key figures
€ millions

	1996	1997	1998	1999	1999 FRF millions
Sales	544	791	851	1,119	7,340
Cash flows from operations	36	55	81	124	813
Capital expenditure	33	99	92	89	584
as % of sales	6.1%	12.5%	10.8%	8.0%	8.0%
Employees	14,084	18,864	20,651	23,878	23,878

Main subsidiaries
€ millions

	Local rank	Sales
Wahaha (China)	No.1	483
Britannia (India)	No.1	230
Griffin's (New Zealand)	No.1	104
Amoy (China)	No.1	75

Danone Group in China

No.1 foreign food group operating in China.

Top contributor to Group sales in the region.

€713 million in 1999 sales: beverages 81%, sauces 11%, biscuits 6%, fresh dairy products 2%.

favor and consolidating the healthful image of the Group's leading brand. In addition, the Prince range has benefited from a successful relaunch to rank first in the promising market for children's biscuits. All told, biscuit sales were up nearly 18% in 1999, and profitability improved significantly.

The group's Dongxihu and Haomen breweries benefited from a concerted productivity drive, reporting a vigorous rise in operating margin.

Turning to sauces, Shanghai Amoy recorded a steep rise in sales and is now a major contender in soy sauce for the Chinese market.

In Hong Kong, where unfavorable economic conditions made for sluggish demand, Amoy was able to increase its share market.

India

Britannia is India's leading biscuit maker, with one of the country's four best-known food brands.

Reflecting the success of the Tiger line and its new versions, as well as products targeting teenagers, 1999 sales rose over 15%.

Britannia benefits from an outstanding distribution network covering no fewer than 650,000 outlets. This was further expanded in 1999.

Malaysia

The success of the Jacob's Hi-Calcium range made a major contribution to rises in sales and operating margin.

Pakistan

Sales showed a further strong rise despite difficult economic conditions.

New Zealand

Griffin's, number one in the region's most mature biscuit market, benefited from successful innovation and made good progress in the high-growth snacking segment.

1999 highlights

→ Indonesia: bottled water sold by market leader Aqua now carries the Danone name.

→ China: early in 2000, Danone Group acquired Robust, consolidating its top position on the Chinese market for bottled water and dairy drinks.

Other food business

During the year Danone Group completed its disposal of non-strategic food products, including fresh and frozen ready-to-serve specialties in France (Marie Surgelés and Générale Traiteur) and Spain (Pycasa), plus a 50% interest in Star in Italy.
"Other food business" now consists primarily of sauces, accounting for less than 3% of total consolidated sales.

Business under this heading includes sauces produced by HP Foods in the UK, Lea & Perrins in the US and Amoy in China, generating sales of € 342 million (FRF 2,243 million) in 1999.
Profitability is high and has risen steadily in recent years, driven by productivity gains and successful efforts to focus on products with growth potential.

HP Foods

Sales of main products carrying Group brands again showed strong growth, while the company scaled down production for outside labels.

Lea & Perrins

By focusing on its leading products, the company continued to raise operating income.

Containers

At the end of the first half of 1999, Danone Group sold a 56% equity stake in its containers division to a group of financial investors.
Operations had previously been merged with those of Germany's Gerresheimer to create Europe's second-largest containers specialist, with market share of around 22%.
Activity was fully consolidated in the first six months of the year, and accounted for on an equity basis from July.
As of January 2000, sales and operating income will not appear in consolidated financial statements.

Container business contributed sales of € 501 million (FRF 3,286 million) to the consolidated total in 1999, representing revenues for the first six months of the year.

The elimination of these operations from the scope of consolidation will have no impact on operating margin.

Auditors' report on the consolidated financial statements

Years ended December 31, 1998 and 1999

To the stockholders of GROUPE DANONE

In accordance with the terms of our appointment at the Annual Stockholders' Meeting, we have audited the accompanying consolidated financial statements of Danone and its subsidiaries, established in euros, for the years ended December 31, 1998 and 1999, presented on pages 47 to 49.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with French generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Danone and its subsidiaries at December 31, 1998 and 1999 and the consolidated results of their operations for the years then ended, in accordance with the accounting principles described in Note 1 to the consolidated financial statements.

We are satisfied that the information given in the report of the Board of Directors concerning the Group is fairly stated and agrees with the consolidated financial statements.

Paris, March 15, 2000

The Statutory Auditors

Mazars & Guerard

Yves Robin - Loïc Wallaert

Befec-Price Waterhouse

Member of PricewaterhouseCoopers

Pierre Coll - Patrick Seurat

Consolidated statements of income

Euros (millions) - French francs (millions) Year ended December 31	notes	1998	1999	1999
Net sales		12,935	13,293	87,195
Cost of goods sold		(6,807)	(6,663)	(43,709)
Selling expenses		(3,650)	(3,964)	(26,003)
General and administrative expenses		(852)	(913)	(5,988)
Research and development expenses		(120)	(122)	(802)
Other expense and income	20	(213)	(240)	(1,570)
Operating income		1,293	1,391	9,123
Non-recurring items	2	(44)	2	15
Interest expense, net	21	(146)	(131)	(856)
Income before provision for income taxes and minority interests		1,103	1,262	8,282
Provision for income taxes	22	(433)	(499)	(3,273)
Income before minority interests		670	763	5,009
Minority interests		(97)	(110)	(726)
Equity in net earnings of affiliated companies		25	29	191
Net income		598	682	4,474

Per share information (Note 1 R)

Amounts in euros - in French francs, except number of shares			
Number of shares used in calculating:			
basic earnings per share	70,539,085	69,938,674	69,938,674
diluted earnings per share	78,557,577	74,495,001	74,495,001
Basic earnings per share	8.48	9.75	63.97
Diluted earnings per share	8.15	9.38	61.51

The notes on pages 50 to 65 are an integral part of the consolidated financial statements.

Consolidated statements of changes in stockholders' equity (excluding minority interests)

	Number of shares		In millions of euros					
	Issued	Excluding treasury stock	Capital stock	Capital surplus	Retained earnings	Translation adjustments	Treasury stock	Stockholders' equity attributable to the Group
Balance at December 31, 1997	73,071,609	70,567,030	111	2,707	4,316	(363)	(259)	6,512
Capital stock issues	345,731	345,731	1	42				43
Conversion of debentures	507,470	507,470	1	63				64
Net income for 1998					598			598
Dividends paid					(203)			(203)
Translation adjustments						(141)		(141)
Change in treasury stock		(1,493,077)					(359)	(359)
Balance at December 31, 1998	73,924,810	69,927,154	113	2,812	4,711	(504)	(618)	6,514
Capital stock issues	567,551	567,551	1	72				73
Capital stock reduction	(4,500,000)	(4,500,000)	(7)	(1,015)				(1,022)
Conversion of debentures	4,143,227	4,143,227	6	553	24			583
Net income for 1999					682			682
Dividends paid					(208)			(208)
Translation adjustments						331		331
Change in treasury stock		(2,574,060)					(807)	(807)
Balance at December 31, 1999	**74,135,588**	**67,563,872**	113	2,422	5,209	(173)	(1,425)	6,146

At December 31, 1999 the negative translation adjustments related to currencies in the euro zone amount to € 382 million.
The notes on pages 50 to 65 are an integral part of the consolidated financial statements.

Consolidated balance sheets

Assets

Euros (millions) - French francs (millions) At December 31	notes	1998	1999	1999
Property, plant and equipment	5	8,868	8,413	55,187
Less: accumulated depreciation		(5,113)	(4,692)	(30,780)
		3,755	3,721	24,407
Brand names	6	1,787	1,850	12,133
Other intangible assets (net)		191	303	1,990
Goodwill	6	3,394	3,367	22,084
		5,372	5,520	36,207
Long-term loans		431	266	1,747
Long-term investments	7	498	583	3,824
Equity in affiliated companies	8	434	289	1,897
Other		169	198	1,300
		1,532	1,336	8,768
Non-current assets		10,659	10,577	69,382
Inventories	9	904	752	4,934
Trade accounts and notes receivable	10	1,721	1,864	12,227
Other accounts receivable and prepaid expenses	10	721	748	4,909
Short-term loans		143	123	801
Marketable securities		523	487	3,196
Cash and cash equivalents		371	464	3,044
Current assets		4,383	4,438	29,111
Total assets		15,042	15,015	98,493

Liabilities and stockholders' equity

Euros (millions) - French francs (millions)	notes	1998	1999	1999
Capital stock (par value FF 10 per share; shares issued: 1999: 74,135,588; 1998: 73,924,810)		113	113	741
Capital surplus		2,812	2,422	15,885
Retained earnings	11	4,711	5,209	34,172
Translation adjustments		(504)	(173)	(1,137)
Treasury stock		(618)	(1,425)	(9,345)
Stockholders' equity		6,514	6,146	40,316
Minority interests		783	721	4,730
Convertible bonds	13	1,050	513	3,363
Long-term debt	14	2,053	2,994	19,639
Retirement indemnities, pensions and post-retirement healthcare benefits	15	364	325	2,133
Provisions and long-term liabilities	16	387	356	2,335
Stockholders' equity and non-current liabilities		11,151	11,055	72,516
Trade accounts and notes payable	17	1,651	1,798	11,795
Accrued expenses and other current liabilities	17	1,575	1,599	10,488
Short-term debt and bank overdrafts		665	563	3,694
Current liabilities		3,891	3,960	25,977
Total liabilities and stockholders' equity		15,042	15,015	98,493

The notes on pages 50 to 65 are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

Euros (millions) - French francs (millions) Year ended December 31	1998	1999	1999
Net income	598	682	4,474
Minority interests in net income of consolidated subsidiaries	97	110	726
Equity in net earnings of affiliated companies	(25)	(29)	(191)
Depreciation and amortization	702	758	4,971
Other	(45)	(98)	(643)
Cash flows provided by operations	1,327	1,423	9,337
Decrease in inventories	18	(23)	(148)
Net variation in trade accounts and other accounts receivable	(48)	(260)	(1,711)
Net variation in trade accounts and other accounts payable	68	208	1,366
Other variations	(7)	(23)	(154)
Net change in current working capital	31	(98)*	(647)*
Cash flows provided by operating activities	1,358	1,325	8,690
Additions to property, plant and equipment	(711)	(703)	(4,609)
Investment in subsidiaries and affiliated companies	(485)	(934)	(6,124)
Proceeds from the sales of businesses and other investments	238	1,285	8,426
Cash flows used in investing activities	(958)	(352)	(2,307)
Increase in capital and capital surplus	106	608	3,987
Purchases of treasury stock	(358)	(1,724)	(11,308)
Dividends	(253)	(350)	(2,294)
Net change in long-term debt	102	517	3,388
Net increase in long-term loans and other assets	(55)	(83)	(543)
Net change in short-term debt	18	72	472
Proceeds from the sales of marketable securities	(32)	47	308
Cash flows used in financing activities	(472)	(913)	(5,990)
Effect of exchange rate changes on cash and cash equivalents	(16)	33	214
Increase (decrease) in cash and cash equivalents	(88)	93	607
Cash and cash equivalents at beginning of year	459	371	2,437
Cash and cash equivalents at end of year	371	464	3,044

(*) including €136 million (FRF 892 million) negative change loss in net change in Containers current working capital between January 1 and June 30, 1999.

The notes on pages 50 to 65 are an integral part of the consolidated financial statements.

Groupe Danone consolidated financial statements

Notes to the consolidated financial statements

In 1999, 1998 and 1997, the consolidated financial statements were initially prepared in French francs and then translated to euros using the official exchange rate of 6.55957 French francs per euro in place as of January 1, 1999.

NOTE 1 - Summary of significant accounting policies

A. Basis of consolidation

The consolidated financial statements of Groupe Danone (the "Company") and subsidiaries (together, the "Group") have been prepared in accordance with current French generally accepted accounting principles ("French GAAP"). The application of these principles does not give rise to material differences compared with US generally accepted accounting principles (US GAAP), which the Group also complies with because of its international operations and business, except for the fact that brand names have not been amortized.
The application of US GAAP (based on a 40-year amortization period for brand names) would result in a reduction in 1999 consolidated net income of € 45 million (€ 45 million and € 47 million in 1998 and 1997, respectively) to € 637 million (€ 553 and € 512 million in 1998 and 1997, respectively), and a reduction in stockholders' equity at December 31, 1999 of € 358 million (€ 457 million and 378 million at December 31, 1998 and 1997, respectively) to € 5,788 million (€ 6,057 million and € 6,134 million at December 31, 1998 and 1997, respectively).
All material subsidiaries in which the Group holds, directly or indirectly, a controlling interest are consolidated by including all assets, liabilities and income statement items of the related subsidiaries after elimination of intercompany balances, transactions and results. Stockholders' equity excludes minority interests in consolidated companies, which are presented as a separate caption in the consolidated balance sheets.
Material affiliated companies in which the Group exercises, directly or indirectly, significant influence are included in the consolidation using the equity method of accounting. Under the equity method, the Group recognizes as income its proportionate share of the investee's net income and records an increase to the equity investments; such investments are reduced by the amount of any dividends received.
In 1999, of the 156 companies included in the consolidation (1998: 158), 140 are fully consolidated (1998: 139) and 16 are accounted for under the equity method (1998: 19). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 1999, and of newly consolidated and de-consolidated companies, is shown in Note 27.
For companies acquired (or disposed of) during the year, only results for the period subsequent to the date of acquisition (or prior to the date of disposal) are included in the consolidated statement of income.
All significant intercompany accounts and transactions (including dividends) are eliminated in consolidation.

B. Foreign currency translation

Transactions denominated in foreign currencies

Accounts receivable and payable denominated in foreign currencies are generally recorded at the year-end exchange rate. Foreign exchange gains and losses resulting from the remeasurement of accounts receivable and payable stated in foreign currencies and from settlement of such balances during the year are recognized in the income statement under "Other expense and income", except those arising from intercompany transactions of a long-term investment nature which are shown as a separate component of retained earnings under "Translation adjustments."

Translation of financial statements of foreign operations

General:
- balance sheet items are translated into French francs at the official year-end exchange rate;
- income statement items are translated at the average exchange rate for the year for each currency;
- exchange differences arising from the translation of the accounts of foreign companies into French francs are included in retained earnings under the heading "Translation adjustments" until the related foreign investments are sold or liquidated.

Where the functional currency is not the local currency (highly inflationary countries or companies with the French franc as the functional currency), the translation of the financial statements of such companies differs from that described above, as capital and intangible assets, long-term investments and stockholders' equity, and the related income statement items are translated at the appropriate historical exchange rates.

C. Intangible assets

Goodwill

The acquisition cost of a subsidiary is allocated to the identifiable tangible and intangible assets acquired, including brands when relevant, and liabilities assumed based on their fair market values at the date of the acquisition (fair market values being determined based on independent appraisals and management estimates). Any excess of acquisition cost over the identifiable assets acquired and liabilities assumed is allocated to goodwill.
Goodwill is amortized over a period from twenty to forty years, with the majority over forty years, on a basis which takes into consideration, as fairly as possible, the assumptions, objectives and prospects existing when the acquisition was made.
Management periodically evaluates whether changes have occurred that would require revision of the estimated useful lives of the assigned goodwill or would result in an impairment. In making such an evaluation, management estimates the expected future undiscounted cash flows of the business to which the goodwill relates.

Brands and other intangible assets

The brands which have been separately identified are only premium brands, with a value that is substantial and considered to be of a long term nature, sustained by advertising expenses.
The valuation of these brands is determined with the assistance of specialized consultants, taking into account various factors including brand recognition and earnings contribution. These brands, which are legally protected, are not amortized. In the event that the recorded value of a brand becomes permanently impaired, an allowance would be recorded via a charge to income.
Purchased goodwill ("fonds de commerce"), licenses, patents and leasehold rights are recorded at cost and are amortized on a straight-line basis over their estimated useful lives, not exceeding forty years.

D. Property, plant and equipment

Land, buildings, plant and equipment are recorded at historical cost. Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

- Rental property: 50 years;
- Buildings: 15 to 40 years;
- Machinery and equipment: 8 to 15 years;
- Other: 3 to 10 years.

Significant acquisitions under capital leases are treated as installment purchases. They are capitalized on the basis of the discounted value of future lease payments and depreciated over their estimated useful lives.
Interest on funds borrowed to finance capital investment programs prior to their completion is treated as a component of the cost of the related assets.
Consigned containers are recorded at cost.
Depreciation is provided on a straight-line basis, based on available statistics for each company, over the shortest of the following estimated useful lives:

- the physical useful life, taking into account the internal and external breakage rates and wear and tear;
- the commercial useful life, taking into account planned or likely modifications to containers.

Changes in consignment rates (defined as the refundable rate per container) are recorded through an adjustment to the liability for deposits received for containers on consignment offset by an adjustment to the carrying value of consigned containers. Any loss arising on changes in consignment rates is charged to income over the life of the containers involved.

E. Long-term investments

Long-term investments represent shares held in non-consolidated companies. They are carried at cost (including acquisition costs net of tax, if any) less appropriate provisions. Dividends are recorded as income when received.

F. Inventories

Inventories are stated at the lower of cost or market value. Cost is primarily determined using the weighted average method.

G. Marketable securities

Marketable securities are carried at the lower of cost or market. At the end of 1999 and 1998, the cost approximates the market value.

H. Cash and cash equivalents

Cash equivalents consist of highly liquid investments, debt instruments and time deposits with a maturity of three months or less at the date of purchase. Cash equivalents are carried at cost which approximates market value.

I. Treasury stock

Groupe Danone's capital stock held by consolidated Group companies is shown as a reduction of total stockholders' equity under "Treasury stock", at historical cost.

J. Grants and subsidies

Capital investment grants are included in the balance sheet under "Provisions and long-term liabilities". They are released to income (under "Other expense and income") on a straight-line basis over the estimated useful lives of the related fixed assets. Other grants and subsidies are included in "Other expense and income" in the year in which the Group becomes entitled to receive them.

K. Deferred income taxes

Deferred income taxes are recognized for all differences between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except those differences related to:

- goodwill;
- brand names, because these assets, although identifiable, cannot be sold separately;
- unremitted earnings of equity investees, because management believes that their taxation would not be significant at Group level.

Provision is made for irrecoverable withholding taxes on foreseen distributions by consolidated companies. Tax credits available to certain consolidated companies on foreseen distributions are also taken into account. Tax rates applicable to future periods and in the applicable countries are used to calculate year-end deferred income taxes.
Deferred tax assets are reduced by a valuation allowance when it is estimated that it is more likely than not that such benefit will not be realized.

L. Retirement indemnities, pension costs and post-retirement healthcare benefits

The Group's actual benefit obligations relating to defined benefit pension and retirement indemnity schemes are calculated using actuarial assumptions which take into account the economic situation of each country.
These obligations are covered either by provisions recorded in the balance sheet over the period the rights are acquired or by assets held in externally managed funds to which the Group contributes; such contributions are recorded as expenses.
The Group's obligations relating to post-retirement benefits are recognized over the period the benefits are earned. Accrued obligations are based on actuarial valuations which take into account assumptions regarding mortality and future healthcare cost trends.

M. Financial instruments

The Group uses derivative financial instruments, mainly through specialized subsidiaries, for the purpose of hedging currency and interest rate exposures which exist as part of ongoing business operations. As a policy, the Group does not engage in speculative or leveraged transactions, nor does the Group hold or issue financial instruments for trading purposes.
The Group enters into interest rate swap agreements to manage its interest rate exposure. Any interest rate differential is recognized as an adjustment to interest expense over the term of the related underlying debt.
With respect to exchange rate exposure which relates to operating activities, the Group enters into forward exchange contracts and options; gains and losses resulting from these instruments are recognized over the same period as the underlying hedged transactions.
Financial instruments that do not meet the accounting criteria to qualify them as hedges are recorded at fair market value, and changes in fair value are reflected in the income statement.

N. Net sales

Revenues are recognized upon shipment. Net sales are stated after deduction of sales and excise tax. Net sales are also stated net of trade discounts and customer allowances, except for one-off promotional discounts to customers which are treated as selling expenses.
Revenue from distribution of beverages (mainly beer) sold under names other than group brandnames, are recorded via their gross margin.

O. Advertising expenses

Advertising costs are charged to expense as incurred, in the amount of € 664 million and € 593 million for 1999 and 1998, respectively.

P. Research and development

Research and development costs are charged to expense as incurred.

Q. Non-recurring items

Non-recurring expense and income comprise material items which because of their unusual or non-recurring nature cannot be considered as inherent to the operating activities of the Group, such as capital gains and losses on disposals of companies, restructuring costs or exceptional write-downs of intangible assets.

R. Earnings per share

Basic earnings per share is based on the weighted average number of shares outstanding during the year after deducting GROUPE DANONE's treasury stock held by consolidated subsidiaries.
Diluted earnings per share is based on the average number of shares outstanding after assumed conversion of all common stock equivalents and convertible debentures and taking into account the related theoretical reduction in interest charges, net of tax.

S. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.
Actual results could differ from those estimates.

NOTE 2 - Non-recurring items

In 1999, non-recurring items included:
• € 39 million net capital gain resulting from the sale of businesses and similar non-monetary transactions (mainly the sale of 56% of the glass container division, the sale of the ready-to-serve and frozen dishes in France and Spain, the sale of the adult health food in France, the sale of investments in Italy and the restructuring of investments in the biscuit businesses of Germany and the Czech Republic);
• € 37 million charge relating mainly to restructuring initiatives of fresh dairy products operations in Spain and Italy and of biscuits operations in the United Kingdom and Ireland.
After tax and minority interest the net capital gain amounts to € 29 million and the restructuring costs amount to € 17 million.
In 1998, non-recurring items included:
• € 8 million gain on the sale of the fresh ready-to-serve dishes in France, the pasta and canned ready-to-serve dishes in Germany and clinical nutrition in France;
• € 52 million charges relating to restructuring initiatives of dairy products operations in Spain and Italy, biscuits operations in France and Great-Britain and grocery products operations in Germany.
These items had a negative impact of € 22 million on income after tax and minority interests, of which € 21 million concerned restructuring costs.

NOTE 3 - Investments in subsidiaries and affiliated companies

In 1999, the principal investments in subsidiaries and affiliated companies included:
• acquisition of the Termas Villavicencio Company (Water in Argentina) and acquisition of the biscuits operations of the Wedel Company in Poland;
• additional interest in Danone Argentine (Fresh Dairy Products), Aguas Minerales (Water in Argentina), Bagley (Biscuits in Argentina) and Aymore (Biscuits in Brazil);
• acquisition of 50% of Bimo (Biscuits in Morroco), 20% of Galletas Noel (Biscuits in Colombia), 20% of Sotubi (Biscuits in Tunisia), 18% of voting rights of Bakoma (Fresh Dairy Products in Poland) and dairy products operations in Turkey through an investment of 50% in Danonesa.
In 1998, the principal investments in subsidiaries and affiliated companies included:
• acquisition of the Aquapenn Company (Water in the United States);
• additional interests in Cokoladovny (Biscuits in the Czech Republic) and Bagley (Biscuits in Argentina);
• acquisition of 40% of Aqua (Water in Indonesia);
• acquisition of 60% of Shenzhen Health Drinks (Water in China);
• acquisition of 12.45% of Yeo Hiap Seng (Beverages in Singapore);
• acquisition of a minority interest in Danone Asia.

NOTE 4 - Unaudited pro forma financial data (prepared pursuant to French GAAP and not in accordance with US GAAP)

The comparison of 1999 and 1998 results is affected by changes in companies included in the consolidation:
• The divestitures outlined in Note 2.
• initial consolidation from January 1, 1999 of Bolshevik (Biscuits in Russia), Opavia (Biscuits in the Czech Republic), Danone Russie (Fresh Dairy Products in Russia), Elidis (Beer distribution in France) and Danone Ciatska (Biscuits in Poland).
The exchange rate fluctuations between 1999 and 1998 have no significant impact on the comparison of the results.
The 1998 unaudited pro forma figures given below are presented on the basis of the same Group structure and exchange rates as for 1999. They are therefore comparable with the 1999 figures, but not necessarily indicative of actual results:

(in millions of euros)	(pro forma) 1998	(actual) 1999
Net Sales	12,571	13,293
Operating income	1,248	1,391
Net income (excluding capital gains and losses)	574	653

NOTE 5 - Property, plant and equipment

(in millions of euros) At December 31	1998	1999
Land	279	311
Buildings and rental property	1,994	1,905
Machinery and equipment	5,433	4,976
Consigned containers	359	374
Vehicles, office furniture and other	505	562
Capital assets in progress	298	285
Total	**8,868**	**8,413**
Less accumulated depreciation	(5,113)	(4,692)
Net property, plant and equipment	3,755	3,721

NOTE 6 - Intangible assets

(in millions of euros) At December 31	1998	1999
Goodwill	4,157	4,170
Brand names	1,787	1,850
Other	595	800
Total gross intangible assets	**6,539**	**6,820**
Accumulated amortization: goodwill	(763)	(803)
Other intangible assets	(404)	(497)
Total accumulated amortization	(1,167)	(1,300)
Net intangible assets	5,372	5,520

Goodwill

There is no individual goodwill item representing more than 5% of the total, with the exception of Galbani, Lu and Volvic and Danone Argentine, which in the aggregate amount to a net of approximately € 1.5 billion as of December 31, 1999.
Additions and decreases during the year mainly result from newly consolidated companies and from divestitures (refer to Notes 2 and 4).
Current year amortization for consolidated companies of € 93 million (€ 90 million for 1998) is recorded as "Other expense and income" while current year amortization for companies accounted for under the equity method of € 10 million (€ 13 million in 1998) is recorded as "Equity in net earnings of affiliated companies".

(in millions of euros) At December 31	1998	1999
Net book value as at January 1	3,403	3,394
Additions during the year	137	530
Decreases during the year	(43)	(454)
Amortization	(103)	(103)
Net book value as at December 31	3,394	3,367

Goodwill in the amount of € 277 million at the end of 1999 (€ 417 million at December 31, 1998), relates to equity investees.

Brand names

Brand names result from the allocation of the excess of the purchase price of the companies acquired since 1989 and are valued at fair value. They include Galbani, Volvic, the Danone brand in Spain and the main brand names of the Group Biscuits operations, among others. In 1999, changes in brand names exclusively result from the exchange rate fluctuations.

NOTE 7 - Long-term investments in non-consolidated companies

(In millions of euros and at net book value)	1998	1999
Acquired previous year-end, and consolidated at the beginning of subsequent year	122	158
Subsidiaries (more than 50% owned)	174	175
Affiliates (20% to 50% owned)	7	5
Other investments (less than 20% owned)	195	245
Net long-term investments	498	583

Net long-term investments in non-consolidated subsidiaries and affiliates are mainly comprised of investments in the companies Bimo, Sotubi, Galletas Noel and Bakoma, which will be included in the consolidation in 2000, using the equity method of accounting, and investments in companies that are not consolidated due to their size.

NOTE 8 - Equity in affiliated companies

(in millions of euros) At December 31	1998	1999
Net book value as at January 1	406	434
New affiliated companies	30	45
Affiliated companies disposed of during the year	_	(254)
Net earnings	25	29
Dividends paid	(16)	(10)
Other	(11)	45
Net book value as at December 31	434	289

Other changes result from movements in exchange rates.
Summarized financial information for all investments accounted for under the equity method is as follows (figures are for 100% of each of the companies involved):

(in millions of euros) Year ended December 31	1998	1999
Net sales:		
European Union	1,521	2,442
Rest of the World	1,629	1,120
Net income	134	157
Stockholders' equity	1,778	1,396

NOTE 9 - Inventories

(in millions of euros) At December 31	1998	1999
Goods purchased for resale	97	116
Raw materials and supplies	280	263
Semi-finished goods and work in process	66	64
Finished goods	447	287
Non-returnable containers	48	48
Less allowances	(34)	(26)
Net inventories	904	752

NOTE 10 - Trade accounts receivable; other accounts receivable and prepaid expenses

Trade accounts receivable

(in millions of euros) At December 31	1998	1999
Trade accounts receivable	1,669	1,876
Notes receivable	153	125
Less allowance for doubtful receivable	(101)	(137)
Net trade accounts receivable	1,721	1,864
of which unmatured discounted bills account for	8	11

Movements in the allowance for doubtful receivables are as follows:

(in millions of euros) Year ended December 31	1998	1999
Balance as at January 1	**110**	**101**
Charge (net of reversal) for the year	23	28
Utilization	(28)	(21)
Translation differences	(4)	29
Balance as at December 31	101	137

The Group believes its exposure to concentration of credit risk is limited, due to the large number of customers located in diverse geographical areas, and that there is no pronounced dependence on one single customer.

Other accounts receivable and prepaid expenses

(in millions of euros) At December 31	1998	1999
State and local authorities	264	306
Interest receivable	29	31
Prepaid expenses	59	61
Advance payments to suppliers	43	67
Other	326	283
Other accounts receivable and prepaid expenses	721	748

NOTE 11 - Increase in capital stock and capital surplus and retained earnings

Due to the effect of consolidation adjustments to the financial statements of consolidated companies and of the laws in force in the different countries where the Company operates, the amount legally distributable by each subsidiary may be different from the amount of its reported retained earnings. In accordance with French law, dividends cannot exceed the total of the profit of the year and distributable earnings of the Company.

NOTE 12 - Stock options

Under the Company's stock option plans, officers and other employees may be granted by the Board of Directors options to subscribe to newly issued shares, or to purchase existing shares of the Company's common stock. Stock options are granted at an exercise price no less than the minimum value authorized under French law, and expire not later than eight years from the date of grant.

The May 30, 1990, May 21, 1992, May 11, 1995 and May 14, 1997 Extraordinary General Meetings of Shareholders authorized the Board of Directors to grant stock options, during a period ranging between 26 months and five years and up to a limit of 1% of the share capital of Groupe Danone. The May 19, 1999 Extraordinary General Meeting of Shareholders authorized the Board of Directors to grant stock options, during a period of 26 months and up to a limit of 1 million shares of Groupe Danone.

The December 31, 1999 active stock subscription and purchase option plans are summarized below:

At December 31 Year of issue of plan	Range of subscription or purchase price (in euros)	Outstanding and exercisable options
1994	111.7-117.1	18,400
1995	91.5-118.8	123,950
1996	99.1-110.2	193,560
1997	128.2-133.5	198,000
1998	156.0-232.3	305,500
1999	223.0-256.7	317,860
Total		1,157,270

The following table summarizes transactions during 1999 and 1998, including balances from previous plans:

(Number of shares)	1998	1999
Balance as at January 1	1,170,267	1,264,085
Granted	305,500	317,860
Exercised	(206,882)	(405,075)
Surrendered	(4,800)	(19,600)
Balance as at December 31	1,264,085	1,157,270

NOTE 13 - Convertible bonds

• As at December 31, 1999, convertible bonds include the € 609.8 million debt issued by Groupe Danone in October 1993. These bonds were issued at their principal amount of € 154.7 each, and bear interest at an annual rate of 3%. The bonds may be converted at any time, at the rate of one ordinary share per bond. The € 34.1 per bond redemption premium is charged to income on a straight-line basis over the eight-year life of the debt. The bonds initially maturing on January 1, 2002 and subject to the option available to the Company to redeem the bonds early if the share price passes certain thresholds were redeemed by anticipation as of January 1, 2000. During 1999, 609,461 debentures were converted into 609,461 shares.

• Until December 31, 1998, the convertible bonds included the € 504 million debt issued by Groupe Danone in January 1990 at an annual rate of 6.6%. The € 13.7 per bond redemption premium was charged to income on a straight-line basis over the ten-year life of the debt.

The bonds initially maturing in January 2000, and which could be converted at any time at the rate of 1.1 ordinary share per bond, were redeemed as of January 1, 1999. During 1998, 3,211,442 debentures were converted into 3,533,766 shares.

NOTE 14 - Long-term debt

Classification by nature

(in millions of euros) At December 31	1998	1999
Debentures (average interest rate: 6.7%, 1998 : 7.0%)	863	641
Bank loans, other debt and employee profit-sharing debt (average interest rate: 3.2%; 1998 : 3.4%)	1,611	2,597
Less short-term portion	(421)	(244)
Long-term debt	2,053	2,994

Classification by year of maturity

Year of maturity	1998	Year of maturity	1999
In millions of euros	At December 31		At December 31
2000	217	2001	454
2001	316	2002	265
2002	216	2003	134
2003	121	2004	394
2004-2008	579	2005-2009	232
After 2008	598	After 2009	1,511
No fixed maturity	6	No fixed maturity	4
Total	**2,053**	**Total**	**2,994**

At December 31, 1999, the Group held commitments from banks and other financial institutions for approximately € 2,463 million (€2,506 million at December 31, 1998) in connection with medium-term lines of credit over and above the debt recorded in the balance sheet at that date.
As part of such long-term commitments from lenders, the Group utilized the equivalent of € 1,492 million at December 31, 1999 (€ 592 million at December 31, 1998). This debt is classified as long-term debt.

Classification by currency

(in millions of euros) At December 31	1998	1999
French francs	2,009	2,959
Indian rupee	10	11
Florin	10	-
Chinese renminbi	9	8
Italian lira	5	3
Belgian franc	3	3
Singapore dollar	2	3
US Dollar	-	2
Spanish peseta	1	1
Sterling pound	1	1
Other	3	3
Total	2,053	2,994

NOTE 15 - Retirement indemnities, pensions and post-retirement healthcare benefits

The Group contributes to retirement benefit schemes in conformity with the laws and usual practices of countries where the Group operates. As a result of contributions paid under such schemes to private or state sponsored pension funds, the companies have no actuarial liability.
The Group is also responsible for supplementary retirement schemes, contractual commitments for termination indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds, or through provisions.

French companies

The commitments of French companies were calculated based on the following key actuarial assumptions:
- Personnel turnover and mortality
- Retirement age of between 60 and 65, depending upon each employee's category
- Discount rate: 5.2%
- Salary growth rate of between 1.5% and 2.75% depending on the age and category of each employee
- Rate of return on plan assets: 14% (1998: 10%)

Non-French companies

The present value of non-French companies' obligations is determined on the basis of recent actuarial valuations, using actuarial assumptions which reflect the legal, economic and monetary circumstances in each country, as follows:
- Personnel turnover and mortality
- Retirement age of between 60 and 65, depending upon each employee's category
- Discount rate: between 2% and 12% (2.0% and 7.5% in 1998)
- Salary growth rate of between 2% and 8% (1.6% and 5.5% in 1998), depending on the age and category of each employee
- Rate of return on plan assets: between 4% and 9% (1998: 5% and 9% in 1998)

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet at December 31, 1999 and 1998:

Table 15-1 At December 1999, 31st (In millions of euros)	1998 France	 Other countries	1999 France	 Other countries
Accumulated benefit obligation	239	602	231	437
Projected benefit obligation	258	651	261	470
Fair value of plan assets	61	464	69	298
Projected benefit obligation in excess of plan assets	197	187	192	172
Actuarial differences and modifications of plans	26	(6)	25	14
Accrued pension cost recognized in the financial statements	171	193	167	158

Certain companies also provide healthcare benefits to retired employees.

Table 15-2 (in millions of euros)	Projected benefit obligation	Fair value of plan assets	Unrecognized gains or losses	Net accrued pension
Balance as at January 1, 1998	885	504	4	377
Net periodic pension cost: – Service cost	42			42
– Interest cost	31			31
– Return on plan assets	-	24		(24)
– Amortization of actuarial gains and losses	-		(6)	6
Pension benefits payments to employees	(47)	(19)	-	(28)
Contributions made to plan assets	-	14		(14)
Unrecognized gains or losses	13	3	10	-
Effect of exchange rate changes	(12)	(12)		
Other	(3)	11	12	(26)
Balance as at December 31, 1998	909	525	20	364

Table 15-3 (in millions of euros)	Projected benefit obligation	Fair value of plan assets	Unrecognized gains or losses	Net accrued pension
Balance as at January 1, 1999	909	525	20	364
Net periodic pension cost: – Service cost	36			36
– Interest cost	32			32
– Return on plan assets		21		(21)
– Amortization of actuarial gains and losses			(3)	3
Pension benefits payments to employees	(49)	(22)		(27)
Contributions made to plan assets		15		(15)
Unrecognized gains or losses	17	8	9	-
Effect of exchange rate changes	24	24	1	(1)
Other	(238)	(204)	12	(46)
Balance as at December 31, 1999	731	367	39	325

The related provisions, in an amount of € 12 million at December 31, 1999 (€ 9 million at December 31, 1998), are included in "Projected benefit obligation" in table 15-1.
Movements in 1999 and 1998 and the net periodic pension cost for each year are analyzed in tables 15-2 and 15-3.
The other movements include in particular contributions paid by employees to funds, the reclassification in "Provisions and long-term liabilities" of retirement indemnities provisions related to restructuring plans, as well as the reclassification of prepaid retirement indemnities and, in 1999, the impact of the sale of the glass containers operations.
The components of the net periodic pension cost for 1999 and 1998 are as follows:

(in millions of euros) Year ended December 31	1998	1999
Service cost	42	36
Interest cost	31	32
Return on plan assets	(24)	(21)
Net amortization and deferral	5	3
Net periodic pension cost	54	50

NOTE 16 - Provisions and long-term liabilities

Restructuring

(in millions of euros) At December 31	1998	1999
Restructuring	31	18
Long-term accrued liabilities	296	292
Long-term net deferred tax (asset) / liability	37	31
Capital investment grants	23	15
Provisions and long-term liabilities	387	356

The schedule below shows the major items covered by the restructuring provisions, with the related movements:

(in millions of euros)	Employees: redundancy & other benefits	Write-down of plants & factories	Ancillary costs	Total
Balance as at December 31, 1997	85	23	17	125
Charge	21	21	10	52
Utilization	(84)	(40)	(23)	(147)
Amounts recorded in connection with purchase accounting for acquired businesses	1	-	-	1
Translation differences Balance as at December 31, 1998	23	4	4	31
Charge	2	4	1	7
Utilization	(22)	-	(6)	(28)
Amounts recorded in connection with purchase accounting for acquired businesses	2	-	6	8
Balance as at December 31, 1999	5	8	5	18

Long-term accrued liabilities

Long-term accrued liabilities mainly include:

• the € 58 million claims reserves established by Danone Ré, the Group's reinsurance company;

• the € 49 million after tax accrued convertible bonds redemption premium (also refer to Note 13);

• various provisions estimated necessary to cover the specific risks and charges incurred in the normal course of business.

NOTE 17 - Trade accounts and notes payable; Accrued expenses and other current liabilities

Trade accounts and notes payable

(in millions of euros) At December 31	1998	1999
Trade accounts payable	1,360	1,531
Notes payable	291	267
Trade accounts and notes payable	1,651	1,798

Accrued expenses and other current liabilities

(in millions of euros) At December 31	1998	1999
Personnel and social charges	326	317
Year-end rebates payable to customers	271	312
State and local authorities	155	160
Consigned containers	141	135
Accrued interest payable	21	25
Income tax payable	94	144
Other	567	506
Accrued expenses and other current liabilities	1,575	1,599

NOTE 18 - Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) for 1999 amounted to € 2,053 million (1998: € 2,135 million), of which € 7.4 million (1998: € 5.6 million) represented remuneration paid to executive management of the Group.

Group personnel at December 31, 1999 and 1998 were comprised of the following:

At December 31	1998	1999
France	20,343	15,790
Rest of western Europe	21,827	17,974
International	36,775	42,201
Total	78,945	75,965

On a comparable basis, Group personnel would have been 75,965 as at December 31, 1999 and 76,536 as at December 31, 1998.

NOTE 19 - Depreciation and amortization

(in millions of euros) Year ended December 31	1998	1999
Property, plant and equipment	555	561
Goodwill	90	93
Intangible assets	57	104
Total	702	758

The depreciation and amortization charges for property, plant and equipment and intangible assets have been allocated to the various lines of the consolidated statements of income by function.

The amortization charge for goodwill included in this table relates only to goodwill of fully consolidated companies.

NOTE 20 - Other expense and income

(in millions of euros) Year ended December 31	1998	1999
Employee profit-sharing	123	125
Goodwill amortization	90	93
Other	-	22
Other expense net	213	240

NOTE 21 - Interest expense, net

Interest paid amounted to € 120 million and € 123 million for the years ended December 31, 1999 and 1998, respectively.

(in millions of euros) Year ended December 31	1998	1999
Interest expense	233	200
Interest income	(87)	(76)
Exchange gain or loss	-	7
Interest expense net	146	131

NOTE 22 - Income taxes

Income tax expense

Income before taxes and income tax expense consist of:

(in millions of euros) Year ended December 31	1998	1999
Income before provision for income taxes:		
• French companies	334	507
• Foreign companies	769	755
Income before provision for income taxes	1,103	1,262
Income tax expense (income):		
- Current income taxes:		
• French companies	199	252
• Foreign companies	242	289
	441	**541**
- Deferred income taxes:		
• French companies	(50)	(41)
• Foreign companies	42	(1)
	(8)	**(42)**
Provision for income taxes	433	499

Groupe Danone files, for most of its French subsidiaries in which the Group owns, directly or indirectly, more than 95% of the share capital, consolidated tax returns which, to a certain extent and under certain conditions, enable the offset of taxable profit against tax losses. The subsidiaries which elected to participate in the French Group tax consolidation have signed a tax sharing agreement with the Company, in conformity with the regulations formulated by the French tax authorities.
Current income taxes represent the amount of taxes for the year, paid or payable in a short term period to the tax authorities. These amounts are computed according to the rules and rates applicable in the countries where the Group operates, taking into account the consolidated tax return applicable to the majority of the French subsidiaries in the Group. The Group made income tax payments of approximately € 346 million and € 374 million in 1999 and 1998, respectively. Non-recurring items generated tax savings of € 2 million in 1999 and € 18 million in 1998.

Analysis of the effective income tax rate

The effective tax rate is 39.54% in 1999, compared with 39.3% in 1998. The difference between these rates and the standard French tax rate of 39.99% in 1999 and 41.66% in 1998 can be analyzed as follows:

(Amounts in percentage at income before taxes)	1998	1999
Statutory tax rate in France	41.66	39.99
Effect of foreign tax rate differential	(3.90)	(2.50)
Effect of amortization of goodwill	2.34	2.66
Effect of other differences	(0.80)	(0.61)
Effective income tax rate	39.30	39.54

Deferred income taxes

Deferred income taxes mainly arise from the differences between the book and tax basis of assets and liabilities, as explained in note 1.K. The significant components of deferred tax assets and liabilities on the balance sheet are as follows:

(In millions of euros) At December 31	1998	1999
Deferred tax assets on temporary differences:		
• Retirement benefits	70	59
• Restructuring provisions	35	8
• Other temporary differences	-	-
Deferred tax assets on tax loss carry forwards:		
• Gross	141	111
• Less valuation allowance for carry forwards	(61)	(59)
Long-term deferred tax assets	185	123
Deferred tax liabilities on temporary differences:		
• Depreciation of property, plant & equipment	(199)	(146)
• Capitalized interests	(9)	(8)
• Other differences	(14)	-
Long-term deferred tax liabilities	(222)	(154)
Net long-term deferred tax asset / (liability)	(37)	(31)

The 1997 divestitures outlined in Note 2 gave rise to tax loss carry forwards with a related deferred tax asset in the amount of € 81 million. Taking into account the likelihood that such benefits are realized within a reasonable period of time, a valuation allowance of € 50 million was also recorded.
Net short-term deferred tax assets amounting to € 51 million as of December 31, 1999 (€ 43 million as of December 31, 1998) are almost exclusively related to differences between statutory and taxable income of subsidiaries.

Tax loss carry forwards

Tax losses carried forward and not yet utilized amount to € 181 million as of December 31, 1999, and mainly expire after 2003. Furthermore, long term capital losses, which are carried forward as at December 31, 1999, amount to € 152 million.

NOTE 23 - Financial instruments

The Group uses financial instruments to manage its exposure to currency and interest rate risks incurred in the normal course of business. However, it is the Group's policy not to sell or purchase derivative financial instruments for purposes other than hedging.

Interest rate exposure

The financing of all Group subsidiaries is centralized and managed by the Treasury Department, which uses financial instruments to reduce the Group's net interest rate exposure. The main instruments are interest-rate swaps, negotiated with major financial institutions. The notional amounts and maturities of these instruments are as follows:

(in millions of euros) At December 31	1998	1999
Interest rate swaps, with a remaining term at December 31:		
• below one year	274	1,006
• between one and five years	1,385	1,362
• above five years	454	292
Interest rate caps and floors, with a remaining term at December 31:		
• below one year	152	(589)
• between one and five years	(617)	(1,618)
• above five years	-	(76)

The accounting treatment used for these instruments is described in note 1.M.
Taking into account these hedging instruments, 13% (25% at December 31, 1998) of the Group's consolidated net debt (including convertible bonds) and amounting to some € 3 billion is at a fixed interest rate at December 31, 1999.
As a result of these hedging instruments, the effective

weighted average interest rate of the Group's consolidated net debt in 1999 is 4.33% (1998: 4.61%), compared to a 5.09% (1998: 5.22%) weighted average rate before any hedging operations.

Currency exposure

The Group's operations around the world are carried out by subsidiaries which trade primarily in their home country. Consequently, the Group's exposure to currency risks in its operating activities is low. The Group's Treasury Department uses financial instruments to reduce the net exposure to currency risk, after netting the currency positions arising from the combined firm and budgeted operating transactions of all subsidiaries. The main instruments used are forward exchange contracts and purchases of currency options, entered into with major financial institutions. The contractual amounts of the Group's forward and options currency amounts are summarized below. Foreign currency amounts are translated at current rates at the reporting date. The accounting treatment of these instruments is described in Note 1.M:

(in millions of euros) At December 31	1998	1999
Forward (purchases) / sales:		
• US dollar	317	377
•Pound sterling	89	137
• Euro	(559)	(642)
• Swiss franc	70	57
• Yen	-	114
• Other	(60)	(3)
Total forward	(143)	46
Including: -Forwards purchased	(831)	(986)
-Forwards sold	688	1,032
Currency options purchased	(22)	(1)
Total currency hedging instruments	(165)	45

Translation exposure

The Group's international expansion is such that movements in exchange rates have an accounting impact on the translation into French francs of approximately 65% of net sales (63% in 1998) and 58% of operating income (56% in 1998) generated by non-French subsidiaries. Taking into account the introduction of the euro and on the basis of the 1999 figures, movements in exchange rates excluded from the euro zone would impact the translation in euros of 33% of net sales (27% in 1998) and 27% of operating income (24% in 1998).

Concentration of counterparty risk

The financial instruments used by the Group to manage its exposure to interest rate risks are negotiated with major counterparties. Fair values of such instruments as at December 31, 1999 and 1998 are analyzed below by counterparty:

(As a percentage of total fair values as of December 31, 1998 and 1999)	1998	1999
Counterparty's rating (according to Standard & Poor's)		
• AAA	27%	11%
• AA	21%	54%
• A	49%	34%
• BBB	3%	1%

The financial instruments used by the Group to manage its exposure to currency risks are all negotiated with counterparties rated A1+/P1.
There are no financial instruments negotiated with counterparties located in a geographical area with a political or financial risk (i.e., all counterparties are from Western Europe or the United States of America).

Market value of financial instruments

The table below summarizes the book and market values of the financial instruments used by the Group as at December 31, 1999 and 1998:

(in millions of euros) At December 31	1998		1999	
	Net book value	Market value	Net book value	Market value
Balance sheet and off-balance sheet Assets and (Liabilities)				
Excluding components of net debt				
Long-term loans	431	431	266	266
Long-term investments	498	593	583	639
Equity in affiliated companies	434	443	289	289
Other financial assets	169	169	198	198
Trade debtors	2,442	2,442	2,612	2,612
Short-term loans	143	143	123	123
Trade creditors	(3,226)	(3,226)	(3,397)	(3,397)
Off-balance sheet currency instruments		(1)		(39)
Balance sheet and off-balance sheet Assets and (Liabilities)				
Components of net debt				
Convertible bonds (including the redemtion premium accrued before tax)	(1,175)	(1,205)	(562)	(562)
Long-term debt	(2,053)	(2,134)	(2,994)	(3,013)
Short-term debt and bank overdrafts	(665)	(665)	(563)	(563)
Marketable securities	523	523	487	487
Cash and cash equivalents	371	371	464	464
Off-balance sheet interest rate instruments	-	93	-	65

The market value of long-term loans based on future cash-flows is equivalent to their net book value.
The market value of long-term investments (either held by consolidated companies or equity investees) and of other financial assets is determined using the stock exchange value for listed companies and, for non-listed investments, the net book value, which approximates market value.
The value of the convertible bonds has been determined on the basis of redemption value. The value of substantial long-term debt is computed item by item, using values by the Group for quoted instruments.
The market value for all current assets and liabilities (trade accounts receivable and payable and other debtors and creditors, short-term loans and debt, marketable securities, cash and cash equivalents) is considered to be equivalent to net book value due to their short-term maturities.
The market value of off-balance sheet currency and interest rate instruments is either calculated by the Group, or obtained from the banks that are counterparties to the transactions.
The market value of the consolidated net debt represents what the Group would theoretically pay to redeem its net debt. As some of the debt bears historical interest rates that are higher than current market rates, their market value is above their net book value. This theoretical potential loss is compensated by potential gains existing on off-balance sheet financial instruments used to hedge interest rate risks on the debt.

NOTE 24 - Commitments and contingencies

Commitments relating to investments in subsidiaries

As part of the takeover offer initiated by the Finalrealm Company for United Biscuits (United Kingdom), Groupe Danone committed itself, under certain conditions, to providing Finalrealm a short term advance of a maximum amount of £ 132 million, to buying certain assets amounting to £362.7 million and to guaranteeing banking bridge loans for Finalrealm amounting to £ 1,051 million (including the financing of the assets which the Group is committed to buying), if Finalrealm fails to obtain 90% of United Biscuits' shares within a defined time limit.
On February 28, 2000, the two financial investors (Finalrealm and Burlington, who had separately launched a competing takeover offer for United Biscuits) agreed to merge their offers into a single offer led by Finalrealm. As a result of this agreement, the Group's commitment to buying assets has been reduced to £ 290.2 million. Taking into account the new conditions of the single takeover offer, it is highly improbable that the banking bridge loans will be used, which would cancel the guaranteed commitment of the Group.
Additionally, the Group has entered into commitments to increase its interest in certain subsidiaries, in particular to acquire the entire capital stock of Galbani. The investments related to these commitments amount to approximately € 295 million.
The Group has also entered into agreements to purchase interests held by third party stockholders in certain consolidated subsidiaries, should these stockholders wish to sell their interests. In any event, the potential cost of purchasing these shares will be dependent upon the rate of return and the financial situation of the subsidiary in question. No material investment under these agreements is currently planned.

Non-cancelable leases

As of December 31, 1999, the Group had non-cancelable lease commitments amounting to € 47 million with respect to the years 2000 through 2003, and € 42 million with respect to subsequent years.
Commitments received with respect to non-cancelable sub-leases are not significant.

NOTE 25 - Financial information by division

Beginning on January 1, 1998, the Group has implemented a new structure which principally consists of three core operational divisions (Fresh Dairy Products, Beverages and Biscuits).
The segment reporting reflects this structure.

1999 in millions of euros	Fresh Dairy Products	Beverages	Biscuits	Other Food Business	Containers	Total Divisions
Gross sales	6,409	3,963	3,091	549	552	14,564
Sales within the division	(428)	(398)	(269)	(22)	(51)	(1,168)
Net divisional sales	5,981	3,565	2,822	527	501	13,396
Sales within the Group	(16)	-	(3)	-	(84)	(103)
Net sales outside the Group	5,965	3,565	2,819	527	417	13,293
Operating income	655	440	222	39	51	1,407
Equity in net earnings of affiliated companies	2	13	3	4	8	30
Capital expenditures	312	247	88	13	40	700
Depreciation and amortization expense	233	302	154	19	32	740
Cash flow from operations	615	533	263	37	60	1,508
Total assets	5,055	3,901	3,935	438	50	13,379

	Total Divisions	Unallocated items	Total Group
Operating income	1,407	(16)	1,391
Equity in net earnings of affiliated companies	30	(1)	29
Capital expenditures	700	3	703
Depreciation and amortization expense	740	18	758
Cash flow from operations	1,508	(85)	1,423
Total assets	13,379	1,636	15,015

1998 in millions of euros	Fresh Dairy Products	Beverages	Biscuits	Other Food Business	Containers	Total Divisions
Gross sales	5,948	3,373	2,929	930	946	14,126
Sales within the division	(283)	(369)	(322)	(25)	(14)	(1,013)
Net divisional sales	5,665	3,004	2,607	905	932	13,113
Sales within the Group	(25)	-	(5)	(1)	(147)	(178)
Net sales outside the Group	5,640	3,004	2,602	904	785	12,935
Operating income	621	368	203	29	91	1,312
Equity in net earnings of affiliated companies	(2)	14	(1)	14	-	25
Capital expenditures	253	241	99	30	84	707
Aepreciation and amortization expense	210	240	135	41	60	686
Cash flow from operations	586	456	226	37	108	1,413
Total assets	4,606	3,178	3,611	1,157	778	13,330

	Total Divisions	Unallocated items	Total Group
Operating income	1,312	(19)	1,293
Equity in net earnings of affiliated companies	25	-	25
Capital expenditures	707	4	711
Depreciation and amortization expense	686	16	702
Cash flow from operations	1,413	(86)	1,327
Total assets	13,330	1,712	15,042

NOTE 26 - Activities of divisions by geographical area

Years ended December 31,	1999				1998			
In millions of euros	France	Rest of European Union	Rest of World	Total	France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	5,124	5,410	4,030	14,564	5,223	5,554	3,349	14,126
Intra-Group sales within geographical areas	(161)	(326)	(70)	(557)	(181)	(287)	(46)	(514)
Net sales by geographical area of origin	4,963	5,084	3,960	14,007	5,042	5,267	3,303	13,612
Intra-Group sales between geographical areas	(497)	(208)	(9)	(714)	(481)	(184)	(12)	(677)
Net sales outside the Group	4,466	4,876	3,951	13,293	4,560	5,083	3,292	12,935
Operating income	587	501	319	1,407	589	475	248	1,312
Equity in net earnings of affiliated companies	6	28	(4)	30	(3)	28	-	25
Capital expenditures	198	234	268	700	231	261	215	707
Cash flow from operations	654	505	349	1,508	685	455	273	1,413
Total assets	3,982	5,472	3,925	13,379	4,523	5,874	2,933	13,330

Exports by French companies of Groupe DANONE amounted to € 546 million in 1999 and € 559 million in 1998.

NOTE 27 - Companies consolidated

at December 31, 1999

Companies consolidated for the first time in 1999

- DANONE VOLGA
- DANONESA TIKVESLI
- SHANGHAI AMOY FOODS
- GALBANI BELGIQUE
- DANONE INDUSTRIA ZAO
- BSN GLASSPACK
- GALBANI SUISSE
- ELIDIS HOLDING (and its 48 affiliates)
- DANONE FINANCE NETHERLANDS
- GALBANI UK
- TERMAS VILLAVICENCIO
- SHANGHAI DANONE CONSULTING
- MOS DANONE
- DANONE CIASTKA
- STENVAL BELGIQUE
- GRIESSON DE BEUKELAER

Companies merged in 1999

SA DES BISCUITS BELIN and VANDAMME PATISSERIE, merged into LU.

Changes in the consolidation method

Bolshevik and Danone Cokoladovny (ex Cokoladovny), which were accounted for in 1998 under the equity method, are fully consolidated as at January 1, 1999.
The Company Danone Ciatska (ex GB Polska), which was accounted for in 1998 under the equity method, is fully consolidated as at January 1, 1999 after acquiring Wedel, a Biscuits company.
The glass container operating companies, BSN, Verdôme, Vereenigde Glasfabrieken, Vidrio Espana and VMC, which were fully consolidated until June 30, 1999, are accounted for under the equity method from July 1, 1999 through the company BSN Glasspack, owned by the Group at 44%. In second half of 1999, BSN Glasspack acquired the glass container operating affiliates of the Gerresheimer Group.
The General Biscuits companies in Germany and Austria are no longer fully consolidated in 1999, but are accounted for under the equity method for 40% through Griesson De Beukelaer, to which they were contributed by the Group.

Companies no longer consolidated

at December 31, 1999 (divested companies)

- MARIE SURGELES FRANCE
- COFRALIM
- SADIFROID
- PYCASA
- STAR
- FOOD SOLUTIONS
- FIMEPAR

Fully consolidated companies

Companies	Country	Percentages Group's Control	Interest
GROUPE DANONE S.A	France	Parent company	
Fresh dairy products			
BLEDINA	France	100.00	100.00
DANONE	France	100.00	100.00
GALBANI	France	100.00	100.00
LAITERIE DE VILLECOMTAL	France	50.20	50.20
LABORATOIRE GALLIA	France	100.00	100.00
DANONE	Germany	100.00	99.92
DANONE	Austria	100.00	99.92
DANONE	Belgium	100.00	100.00
GALBANI	Belgium	100.00	90.00
STENVAL	Belgium	97.08	97.08
DANONE	Denmark	100.00	100.00
DANONE	Spain	55.72	55.72
DANONE CANARIES	Spain	75.65	42.15
DANONE	Finland	100.00	100.00
DANONE	Ireland	100.00	100.00
DANONE	Italy	100.00	99.72
GALBANI	Italy	90.00	90.00
DANONE	The Netherland	100.00	100.00
DANONE	Portugal	96.00	52.81
DANONE	United Kingdom	100.00	100.00
GALBANI	United Kingdom	100.00	90.00
GALBANI	Switzerland	100.00	90.00
DANONE SERDIKA	Bulgaria	71.85	71.85
DANONE	Hungary	100.00	100.00
DANONE	Poland	100.00	100.00
DANONE	Czech Republic	97.81	97.81
DANONE VOLGA	Russia	88.28	88.28
MOS DANONE	Russia	51.00	51.00
DANONE INDUSTRIA - ZAO	Russia	100.00	100.00
DANONE	Slovaquia	100.00	100.00
DANONE	Argentina	99.50	99.50
DANONE	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANNON COMPANY	United States	100.00	89.00
DANONE DE MEXICO	Mexico	100.00	100.00
DANONE CLOVER	South Africa	55.00	66.77
GUANGZHOU DANONE	China	100.00	90.34
SHANGHAI DANONE DAIRY	China	50.00	45.17
Beverages			
BRASSERIES KRONENBOURG	France	100,00	100,00
ELIDIS HOLDING (and its 48 affiliates)	France	100,00	100,00
SA DES EAUX MINERALES D'EVIAN	France	100,00	100,00

Companies	Country	Percentages Group's Control	Interest
SEAT (Sté d'Exploitation d'Activités Touristiques)	France	100.00	100.00
SOFID (Sté de Financement et de Développement)	France	100.00	100.00
VOLVIC	France	100.00	100.00
BRASSERIES ALKEN-MAES	Belgium	100.00	99.64
AGUAS DE LANJARON	Spain	95.00	78.51
FONT VELLA	Spain	94.26	77.79
SAN MIGUEL	Spain	71.40	80.62
ITALAQUAE	Italy	100.00	91.01
AGUAS MINERALES	Argentina	100.00	100.00
TERMAS VILLAVICENCIO	Argentina	98.69	98.69
VILLA ALPINA	Argentina	79.00	79.00
AQUATERRA	Canada	100.00	100.00
DANNON WATER	United States	100.00	89.00
BONAFONT	Mexico	100.00	100.00
WUHAN EURO DONGXIHU BREWERY	China	60.00	54.20
TANGSHAN UNITED EUROPEAN & HAOMEN BREWERY	China	70.00	63.24
SHENZHEN HEALTH DRINKS	China	60.00	54.20
WAHAHA	China	51.00	41.01
Biscuits			
COMPAGNIE FINANCIERE BELIN	France	100.00	100.00
GENERALE BISCUIT GLICO FRANCE	France	50.00	50.00
HEUDEBERT	France	100.00	100.00
LU	France	100.00	100.00
LU BELGIE	Belgium	99.63	99.63
LU ESPANA	Spain	100.00	100.00
PAPADOPOULOS	Greece	60.00	60.00
W.&.R. JACOB (Irish Biscuits)	Ireland	100.00	100.00
NEWCO	Italy	100.00	100.00
SAIWA	Italy	100.00	100.00
LU NEDERLAND	The Netherland	100.00	99.63
JACOB'S BAKERY	United Kingdom	100.00	100.00
DANONE CIASTKA	Poland	75.00	75.00
BOLSHEVIK	Russia	72.77	72.77
DANONE COKOLADOVNY	Czech Republic	99.00	99.00
BAGLEY	Argentina	91.23	91.23
JIANGMEN DANONE BISCUITS	China	100.00	90.34
SHANGHAI DANONE BISCUITS FOODS	China	60.00	54.20
BRITANNIA INDUSTRIES	India	38.71	18.39
DANONE	Indonésia	100.00	90.34
BRITANNIA BRAND MALAYSIA	Malaysia	100.00	90.34
GRIFFIN'S FOODS	New Zealand	100.00	90.34
CONTINENTAL BISCUITS PAKISTAN	Pakistan	49.49	44.71

Companies	Country	Percentages Group's Control	Interest
Other food business			
HP FOODS	United Kingdom	100.00	100.00
LEA & PERRINS	United States	100.00	100.00
AMOY	China	100,00	90.34
SHANGHAI AMOY FOODS	China	60.00	54.20
BEST CORPORATION	New Zealand	100.00	90.34
Export			
DIB PARIS	France	100.00	100.00
DIB ANTILLES GUYANE	France	100.00	100.00
DIB OCEAN INDIEN	France	100.00	100.00
DIB PORTUGAL	Portugal	100.00	100.00
DIB SUEDE	Sweden	100.00	100.00
DIB AUSTRALIE	Australia	100.00	100.00
DIB CANADA	Canada	100.00	100.00
GBE CANADA	Canada	100.00	100.00
GBE USA	United States	100.00	100.00
DIB MEXICO	Mexico	100.00	100.00
DIB HONG KONG CHINA	China	100.00	100.00
DIB JAPON	Japan	100.00	100.00
DIB ASIA	Singapore	100.00	100.00
Holding companies			
Cie GERVAIS DANONE	France	100.00	100.00
GENERALE BISCUIT	France	100.00	100.00
COFINDA	France	100.00	100.00
DANONE FINANCE	France	100.00	100.00
FINALIM 3	France	100.00	100.00
FINALIM 4	France	100.00	100.00
GAAP	France	100.00	100.00
ALFABANQUE	France	100.00	100.00
DANONE HOLDING	Germany	99.92	99.92
DANONE VERMOGENS VERWALTUNG	Germany	100.00	99.92
DANONE FINANCE BENELUX	Belgium	100.00	93.69
COFIVE	Belgium	100.00	99.96
MECANIVER	Belgium	89.00	89.00
DANONE FOODS	United States	100.00	89.00
FINANZIARIA IMPERIESE	Italy	100.00	90.20
SCIA	Italy	92.97	91.31
SIFIT	Italy	100.00	98.21
SOGEPA DANONE	Italy	99.73	99.72
DANONE RE	Luxembourg	100.00	100.00
DANONE FINANCE NETHERLANDS	The Netherland	100.00	100.00
SELBA	The Netherland	100.00	100.00
SETEC-SOBELPAR	Portugal	100.00	100.00
ABIH	United Kingdom	50.00	45.17
ABIL	United Kingdom	100.00	45.17
BRITANNIA BRANDS	United Kingdom	100.00	90.34
DANONE HOLDINGS UK	United Kingdom	100.00	100.00
JINJA	China	89.02	80.40
ASIA HOST	China	100.00	90.34
SHANGHAI DANONE CONSULTING	China	100.00	90.34
BANNATYNE ENTERPRISES	Singapore	40.00	18.07
BHPL	Singapore	100.00	100.00
BRITANNIA BRANDS KUAN	Singapore	100.00	90.34
DANONE ASIA	Singapore	90.34	90.34
DOWBIGGIN ENTERPRISES	Singapore	40.00	18.07
KUAN ENTERPRISES	Singapore	100.00	90.34
NACUPA ENTERPRISES	Singapore	40.00	18.07
PEERLESS BRANDS	Singapore	100.00	90.34
SPARGO ENTERPRISES	Singapore	40.00	18.07
VALLETORT ENTERPRISES	Singapore	40.00	18.07

Companies accounted for under the equity method

Companies	Country	Group's Control	Interest
Fresh dairy products			
CLOVER	South Africa	22.75	26.15
MINUTE MAID DANONE	France	50.00	50.00
DELTA DAIRY	Greece	20.00	20.00
STRAUSS DAIRY	Israel	20.00	20.00
CALPIS AJINOMOTO DANONE	Japan	25.00	25.00
CENTRALE LAITIERE DU MAROC	Morocco	20.00	20.00
PINGOUIN	Morocco	20.00	20.00
STIAL / SOCOGES	Tunisia	50.00	50.00
DANONESA TIKVESLI	Turkey	50.00	50.00
Beverages			
MAHOU	Spain	33.34	33.34
AQUA	Indonésia	40.00	36.14
PERONI	Italy	24.50	24.42
DANONESA DANONE SABANCI	Turkey	50.00	50.00
Biscuits			
GRIESSON DE BEUKELAER	Germany	40.00	40.00
AYMORE	Brazil	60.00	60.00
Containers			
BSN GLASSPACK	France	44.00	44.00

Danone Group parent company

Financial statements and summary of resolutions

Condensed statements of income

Net income for 1999 amounts to FF 2,843 million.
It includes financial income of FF 2,031 million and non-recurring income of FF 1,093 million.
The latter is attributable to capital gains on disposal of investment securities, particularly the sale of the 56% holding in BSN.

in millions of French francs	1999	1998
Operating loss	(923)	(714)
Financial income made up of:	2,031	1,567
Dividends received from affiliates	2,185	1,975
Interest payments from affiliates	53	218
Other financial income and expense	(207)	(626)
Non-recurring items	1,093	4
Income tax	642	732
Net income for the year	2,843	1,589

Condensed balance sheets

After allocation of income, balance sheets at December 31, 1999 and 1998 are as set out below:

in millions of French francs	1999	1998
ASSETS		
Tangible and intangible assets	81	88
Investments	40,443	37,306
Other accounts receivable and prepaid expenses	957	4,898
Cash and marketable securities	2,401	2,552
Total assets	43,882	44,844
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' equity	27,595	29,085
Provisions for risks and charges	124	426
Financial debt	7,498	12,774
Other accounts payable and deffered charges	8,665	2,559
Total liabilities and stockholders' equity	43,882	44,844

Investments

At December 31, 1999 and 1998, net investments were made up of the following:

in millions of French francs	1999	1998
Investments in affiliates	30,473	32,522
Other investments	9,970	4,784
Total investments	40,443	37,306

The gross amount of investments in affiliates and other securities is the acquisition cost excluding incidental expenses, except in the case of investments made prior to December 31, 1976, which have been reevaluated. The impact of this revaluation on investments in affiliates at December 31, 1999 amounted to FF 151 million.
If the year-end valuation of an asset is lower than the gross amount, a provision for depreciation is recorded in an amount equal to the difference. Year-end valuation takes into account not only the portion of equity represented by the investment in an affiliate, but also the financial and business potential of that affiliate.
Other investments include 5,851,201 treasury shares (against 3,274,608 in 1998). Treasury shares are valued at historical cost. A provision is booked when the fair value of shares that are not intended to be cancelled falls below their book value.

Stockholders' equity

At December 31, 1999, capital stock was composed of 74,135,588 shares with a nominal value of FF 10 each.

in millions of French francs	Mouvements du capital	Mouvements des primes	Autres postes	Total
Capital increase resulting from employee stock ownership scheme	2	211		213
Capital stock reduction by cancellation of shares	(45)	(6,655)		(6,700)
Conversion of debentures, exercise of, GROUPE DANONE stock options	45	3,729		3,774
Allocation to equity of 1999			1,241	1,241
Other			(18)	(18)
Total	2	(2,715)	1,223	(1,490)

Financial debt

Financial debt at December 31, 1999, included the following items:

in millions of French francs	
Convertible bonds	3,363
Other bonds outstanding	3,772
Loans and other amounts due to banks	140
Miscellaneous borrowings and financial debt	223
Total financial debt	7,498

Allocation of income and dividends

Amount of dividends

Shareholders will receive a net dividend per share of € 3.50, to which may be added a € 1.75 tax credit ("avoir fiscal"). As a result, the allocation of earnings will be as set out in the table below (third resolution of Annual General Meeting):

in French francs	
Earnings to be allocated	
Income for the year	2,843,177,363
Retained earnings	3,391,667,164
Total	6,234,844,527
Allocation	
Legal reserve	210,778
Dividends	1,702,041,526
Retained earnings	4,532,592,223
Total	6,234,844,527

Summary of resolutions submitted to the combined annual ordinary and extraordinary general meeting of shareholders of May 22, 2000

Resolutions for the ordinary meeting

First resolution

Approval of the transactions included in the Statutory Auditors' special report, drawn up in compliance with article 103 of the Law dated July 24,1966.

Second resolution

Approval of the statutory financial statements of Groupe Danone for the financial year 1999.

Third resolution

Allocation of income and dividend distribution. Net income for the year amounted to FRF 2,843,177,363.00 and a total dividend of FRF 1,702,041,526 is to be paid out of the distributable amount. This net dividend of € 3.50 per share carries with it a tax credit of € 1.75 maximum. The ex-dividend date is May 30, 2000, and dividends will be payable in cash as of the same date. The related coupon is number 48.

Fourth to seventh resolution

Renewal for three years of the Board membership of Messrs:

Yves Cannac	4th
Christian Laubie	5th
Philippe Lenain	6th
Jérôme Seydoux	7th

Eighth resolution

Renewal for three years of the Board membership of Mr. Jean-Claude Haas, in keeping with the provisions of article 15-II of the Company bylaws.

Ninth resolution

Confirmation, in accordance with the provisions of article 15-II of the Company bylaws, of the Board membership of Mr. Jean Gandois, up to the Annual Meeting called to approve the financial statements for the year ended December 31, 2001.

Tenth resolution

Authorization for the Company to acquire its own shares, up to a maximum number of 3,000,000. The Company may not acquire its own shares at a price exceeding € 350 per share, and may not sell them at a price below € 200 each.

Resolutions for the extraordinary meeting

Eleventh resolution

Delegation to the Board of Directors to increase capital stock in the event of a takeover bid on the Company's shares with maintenance of related preferential subscription rights.

Twelfth resolution

Delegation to the Board of Directors to increase capital stock in the event of a takeover bid on the Company's shares with cancellation of related preferential subscription rights.

Thirteenth resolution

Reduction from to € 2 to € 1 of the par value of shares by a two-for-one stock split.

Fourteenth resolution

Powers to be vested in the Board of Directors for the execution of formalities.

Main Danone Group companies

EUR millions		1999 sales	Group stake (%)
Fresh dairy products			
DANONE	France	1,098	100,0
DANONE	Spain	771	55,7
DANNON COMPANY	United States	488	100,0
BLÉDINA	France	425	100,0
DANONE	Germany	401	100,0
DANONE	Argentina	251	99,5
DANONE DE MEXICO	Mexico	237	100,0
DANONE	Belgium	217	100,0
DANONE	Italy	178	100,0
GALBANI	Italy	1,165	90,0
DANONE	Poland	165	100,0
DANONE	Brazil	141	100,0
DANONE	Portugal	86	96,0
DANONE CLOVER	South Africa	82	55,0
DANONE	Czech Republic	76	97,8
DANONE CANADA DELISLE	Canada	72	100,0
DANONE	Hungary	67	100,0

EUR millions		1999 sales	Group stake %
Beverages			
S.A. DES EAUX MINÉRALES D'EVIAN	France	568	100,0
VOLVIC	France	298	100,0
ITALAQUE	Italy	177	100,0
FONT VELLA	Spain	140	94,3
AGUAS MINERALES	Argentina	43	100,0
BONAFONT	Mexico	33	100,0
AGUAS DE LANJARON	Spain	27	95,0
AQUATERRA	Canada	53	100,0
BRASSERIES KRONENBOURG	France	830	100,0
SAN MIGUEL	Spain	245	71,4
BRASSERIES D'ALKEN-MAES	Belgium	131	100,0

EUR millions		1999 sales	Group stake %
Biscuits			
LU	France	895	100,0
JACOB'S BAKERY	United Kingdom	252	100,0
LU BELGIE	Belgium	238	99,6
HEUDEBERT	France	193	100,0
BAGLEY	Argentina	191	91,2
SAIWA	Italy	177	100,0
DANONE COKOLADOVNY	Czech Republic	139	99,0
W & R JACOB'S (Irish Biscuits)	Ireland	80	100,0
LU NEDERLAND	Netherlands	79	100,0
DANONE	Brazil	74	100,0
LU ESPANA	Spain	71	100,0
PAPADOPOULOS	Greece	69	60,0
BOLSHEVIK	Russia	30	72,8
DANONE CIASTKA	Poland	46	75,0

EUR millions		1999 sales	Group stake %
Asia-Pacific			
WAHAHA	China	483	51,0
BRITANNIA INDUSTRIES	India	230	38,7
GRIFFIN'S FOOD	New-Zealand	104	100,0
AMOY	China	62	100,0
DONGXIHU BREWERY	China	45	60,0
SHANGAI DANONE BISCUITS	China	38	60,0
BRITANNIA BRAND MALAYSIA	Malaisy	33	100,0
HAOMEN BREWERY	China	32	70,0
CONTINENTAL BISCUITS	Pakistan	21	49,5
SHENZHEN HEALTH DRINKS	China	18	60,0

EUR millions		1999 sales	Group stake %
Other food business			
HP FOODS LTD	United Kingdom	205	100,0
LEA & PERRINS	United States	47	100,0

Photos : (cover) Lori Adamski Peek, (12/13) Juan Silvia, (26/27) Lucille Khornak, Photothèque Danone

Ten-year selected financial data (1990-1999)

EUR millions	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Summary of operations										
Consolidated sales	8,064	10,072	10,779	10,688	11,711	12,112	12,797	13,488	12,935	13,293
Operating income	865	1,022	1,085	968	1,025	1,070	1,140	1,224	1,293	1,391
As % of sales	10,7%	10,1%	10,0%	9,1%	8,8%	8,8%	8,9%	9,1%	10,0%	10,5%
Net income	471	525	555	522	538	325	516	559	598	682
Cash flow and capital expenditure										
Operating cash flow	756	1,055	1,128	1,020	1,090	1,132	1,212	1,229	1,327	1,423
Capital expenditure	461	512	548	467	545	625	684	797	711	703
Free cash flow	296	543	580	553	545	506	528	433	616	720
Financial position										
Shareholders' equity (incl. minority interests)	3,560	4,874	5,022	5,494	6,121	6,329	6,895	7,268	7,297	6,867
Net debt	2,482	1,800	2,077	2,432	2,412	2,514	3,289	2,752	2,873	3,119
Net gearing ratio	70%	37%	41%	44%	39%	40%	48%	38%	39%	45%
Total assets	9,041	10,700	10,932	12,009	13,291	14,203	15,378	15,030	15,042	15,015
Stockmarket data										
Year-end opening price (EUR)	98.3	139.5	143.8	146.4	115.9	122.0	110.5	166.0	243.9	233.0
Number of shares outstanding (Dec. 31)	55,551,466	57,010,992	63,787,531	67,889,802	69,685,276	71,295,796	72,639,149	73,071,609	73,924,810	74,135,588
Market capitalization (Dec. 31)	6,036	8,976	9,247	9,670	7,946	8,749	8,005	11,964	17,971	17,347
Per share data (EUR)										
EPS (fully diluted)	7.4	8.1	8.5	7.8	7.7	4.7	7.1	7.6	8.1	9.4
EPS before amortization of goodwill	8.0	8.8	9.1	8.6	8.6	5.7	8.2	9.0	9.5	10.8
Total dividend (including French tax credit)	2.7	3.0	3.4	3.5	3.7	3.7	3.9	4.2	4.5	5.25
Workforce										
Total workforce	45,254	59,158	58,063	56,419	68,181	73,823	81,579	80,631	78,945	75,965
France	24,947	26,551	25,741	24,910	26,729	26,518	25,592	21,225	20,343	15,790
Outside France	20,307	32,607	32,322	31,509	41,452	47,305	55,987	59,406	58,602	60,175

Key dates in 2000

Combined Ordinary & Extraordinary Meetings of Shareholders: May 22, 2000

Share goes ex-dividend and dividend becomes payable: May 30, 2000

Half-year results: July 26, 2000 (unaudited figures), September 13, 2000 (final figures)

9-month sales: October 11, 2000

www.danonegroup.com

Groupe DANONE
7 rue de téhéran - 75008 Paris - France
tél : 33 1 44 35 20 20

Corporate Communication
Tél: 33 1 44 35 20 71 / 20 75

Financial Informations:
www.finance.danonegroup.com

Investor Relations
Tél: 33 1 44 35 20 76
finance@groupe.danone.com

DANONE